

TRANS LUX Corp  
Form 10-Q  
November 13, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission file number 1-2257

**TRANS-LUX CORPORATION**  
(Exact name of registrant as specified  
in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

445 Park Avenue, Suite 2001,  
New York, NY  
(Address of principal executive  
offices)

13-1394750  
(I.R.S. Employer  
Identification No.)

10022  
(Zip code)

(800) 243-5544  
(Registrant's telephone number,  
including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

| Date       | Class                            | Shares Outstanding |
|------------|----------------------------------|--------------------|
| 11/12/2015 | Common Stock - \$0.001 Par Value | 1,672,589          |

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**TRANS-LUX CORPORATION AND SUBSIDIARIES**

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CONDENSED CONSOLIDATED BALANCE SHEETS**

| In thousands, except share data  | September 30        | December 31          |
|--|---------------------|----------------------|
|  | 2015<br>(unaudited) | 2014<br>(see Note 1) |
| <b>ASSETS</b>  |                     |                      |
| Current assets:  |                     |                      |
| Cash and cash equivalents  | \$ 89               | \$ 650               |
| Receivables, less allowance of \$353 in 2015 and \$168 in 2014   | 4,186               | 2,798                |
| Inventories  | 2,156               | 1,811                |
| Prepays and other assets   | 1,273               | 805                  |
| Total current assets   | 7,704               | 6,064                |
| Rental equipment   | 27,886              | 27,825               |
| Less accumulated depreciation  | 22,634              | 20,935               |
|  | 5,252               | 6,890                |
| Property, plant and equipment  | 2,326               | 2,140                |
| Less accumulated depreciation  | 1,185               | 1,034                |
|  | 1,141               | 1,106                |
| Goodwill   | 744                 | 744                  |
| Restricted cash  | 214                 | 212                  |
| Other assets   | 307                 | 229                  |
| <b>TOTAL ASSETS</b>  | <b>\$ 15,362</b>    | <b>\$ 15,245</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                     |                      |
| Current liabilities:   |                     |                      |
| Accounts payable   | \$ 2,530            | \$ 1,798             |
| Accrued liabilities  | 7,827               | 7,857                |
| Current portion of long-term debt - unrelated parties  | 1,985               | 1,811                |
| Current portion of long-term debt - related parties  | 500                 | -                    |
| Total current liabilities  | 12,842              | 11,466               |
| Long-term debt:  |                     |                      |
| Mortgage payable   | 283                 | -                    |
| Deferred pension liability and other   | 5,480               | 5,647                |
| Total liabilities  | 18,605              | 17,113               |
| Commitments and contingencies  |                     |                      |
| Stockholders' equity (deficit)   |                     |                      |
| Common - \$0.001 par value - 10,000,000 shares authorized, 1,700,429 shares issued in 2015 and in 2014 | 2                   | 2                    |
| Additional paid-in-capital   | 28,032              | 27,959               |
| Accumulated deficit  | (22,395)            | (21,305)             |

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|  |                  |           |               |
|--|------------------|-----------|---------------|
| Accumulated other comprehensive loss                             | (5,819)          |           | (5,461)       |
| Treasury stock - at cost - 27,840 common shares in 2015 and 2014 | (3,063)          |           | (3,063)       |
| Total stockholders' equity (deficit)                             | (3,243)          |           | (1,868)       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>      | <b>\$ 15,362</b> | <b>\$</b> | <b>15,245</b> |

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

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**TRANS-LUX CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

Three Months Ended

September 30

Nine Months Ended

September 30

In thousands, except per share data

2015

2014

2015

2014

**Revenues:**

Digital product sales

\$

7,289

\$

4,861



\$

15,809

\$

14,639

Digital product lease and maintenance

873

1,262

2,751

3,849

Total revenues

8,162

6,123

18,560

18,488

**Cost of revenues:**

Cost of digital product sales

5,541

3,324

12,102

11,339

Cost of digital product lease and  
maintenance

700

955

2,003

3,004

Total cost of revenues

6,241

4,279

14,105

14,343

**Gross profit**

1,921

1,844

4,455

4,145

General and administrative expenses

(1,643)

(2,187)

(5,274)

(6,622)

**Operating income (loss)**

278

(343)

(819)

(2,477)

**Interest expense, net**

(87)

(49)

14

(210)

(189)

Warrant expense and change in warrant liabilities

(18)

(7)

(53)

(383)

**Income (loss) before income taxes**

173

(399)

|                           |         |
|---------------------------|---------|
|                           | (1,082) |
|                           | (3,049) |
| <b>Income tax expense</b> |         |
|                           | -       |
|                           | (8)     |
|                           | (8)     |
|                           | (24)    |
| <b>Net income (loss)</b>  |         |
| \$                        | 173     |
| \$                        | (407)   |
| \$                        | (1,090) |



\$

(3,073)

Income (loss) per share - basic and diluted

\$

0.10

\$

(0.25)

\$

(0.65)

\$

(2.43)

Weighted average common shares  
outstanding - basic and diluted

1,673

1,642

1,673

**TRANS-LUX CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME (LOSS)**

**(unaudited)**

Three Months Ended

September 30

Nine Months Ended

September 30

In thousands

2015

2014

2015

2014

Net income (loss)

\$

173

\$

(407)

\$

(1,090)

\$

(3,073)

Other comprehensive loss:

Unrealized foreign currency translation  
loss

(161)

(147)

(358)

(164)

Total other comprehensive loss, net of tax

(161)

(147)

(358)

(164)

Comprehensive income (loss)

\$

12

\$

(554)

\$

(1,448)

\$

(3,237)

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

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**TRANS-LUX CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

Nine Months Ended

September 30

In thousands

2015

2014

**Cash flows from operating activities**

Net loss



\$

(1,090)

\$

(3,073)

Adjustment to reconcile net loss to net  
cash used in

operating activities:

Depreciation and amortization

1,874

2,348

Loss on disposal of assets

2

-

Amortization of warrants - stock  
compensation expense

53

63

Change in warrant liabilities

-

320

Changes in operating assets and  
liabilities:

Receivables

(1,388)

26

|  |         |
|--|---------|
|  | (1,102) |
| Inventories                              |         |
|  | (345)   |
|  | 63      |
| Prepays and other assets                 |         |
|  | (419)   |
|  | 589     |
| Restricted cash                          |         |
|  | -       |
|  | (212)   |
| Accounts payable and accrued liabilities |         |
|  | 344     |

(261)

Deferred pension liability and other

(167)

(754)

Net cash used in operating activities

(1,136)

(2,019)

**Cash flows from investing activities**

Equipment manufactured for rental

(61)

(19)

Purchases of property and equipment

(190)

(32)

Net cash used in investing activities

(251)

(51)

**Cash flows from financing activities**

Payments of long-term debt

(43)

(46)

Proceeds from long-term debt - unrelated parties

|   |       |
|---|-------|
|   | 500   |
|   | -     |
| Proceeds from long-term debt - related parties          | 500   |
|   | -     |
| Payments of rights offering costs                       | (131) |
|   | -     |
| Proceeds from issuance of restricted stock and warrants | -     |
|   | -     |
|   | 2,355 |
| Net cash provided by financing activities               |       |
|   | 826   |
|   | 30    |

2,309

Net (decrease) increase in cash and cash  
equivalents

(561)

239

Cash and cash equivalents at beginning  
of year

650

55

**Cash and cash equivalents at end of  
period**

\$

89

31

\$

294

Supplemental disclosure of cash flow  
information:

Interest paid

\$

67

\$

24

Income taxes paid

-

-

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





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TRANS-LUX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

(unaudited)

## Note 1 Basis of Presentation

Financial information included herein is unaudited, however, such information reflects all adjustments (of a normal and recurring nature), which are, in the opinion of management, necessary for the fair presentation of the Condensed Consolidated Financial Statements for the interim periods. The results for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC") and therefore do not include all information and footnote disclosures required under accounting principles generally accepted in the United States of America ("GAAP"). The Condensed Consolidated Financial Statements included herein should be read in conjunction with the Consolidated Financial Statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The Condensed Consolidated Balance Sheet at December 31, 2014 is derived from the December 31, 2014 audited financial statements.

As used in this report, "Trans-Lux," "the Company," "we," "us," and "our" refer to Trans-Lux Corporation and its subsidiaries.

There have been no material changes in our significant accounting policies during the nine months ended September 30, 2015 from the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Deferred Rights Offering Costs:** Costs incurred related to a rights offering made to holders of the Company's common stock, \$0.001 par value per share (the "Common Stock"), primarily professional fees, are deferred until either the

completion of the offering, at which time such costs will be netted against proceeds received and reclassified to Additional Paid In Capital, or the determination to abandon the offering, at which time such costs will be recorded as expense.

*Recent Accounting Pronouncements:* In June 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-12 ( ASU 2014-12 ), Accounting for Share-Based Payments When Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which provides explicit guidance on how to account for share-based payments that require a specific performance target be achieved after an employee completes the requisite service period. ASU 2014-12 is effective for periods beginning after December 15, 2015 and may be applied either prospectively or retrospectively. ASU 2014-12 is not expected to have a material impact on the Company's consolidated financial statements.

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In May 2014, the FASB issued ASU No. 2014-09 ( ASU 2014-09 ) Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes the most current revenue recognition guidance in FASB Accounting Standards Codification ( ASC ) 605 Revenue Recognition, including industry-specific guidance. ASU 2014-09 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The effective date was recently deferred for one year and, as a result, ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2017, including interim periods within. Entities have the option of using either: a full retrospective approach reflecting the application of the standard in each prior reporting period, or a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption as an adjustment to the opening balance of retained earnings for the adoption of the new standard. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

## **Note 2 - Going Concern**

A fundamental principle of the preparation of financial statements in accordance with GAAP is the assumption that an entity will continue in existence as a going concern, which contemplates continuity of operations and the realization of assets and settlement of liabilities occurring in the ordinary course of business. This principle is applicable to all entities except for entities in liquidation or entities for which liquidation appears imminent. In accordance with this requirement, the Company has prepared its Condensed Consolidated Financial Statements on a going concern basis.

We do not currently have adequate liquidity, including access to the debt and equity capital markets, to operate our business in the manner in which we have historically operated. The Company incurred a net loss of \$1.1 million in the nine months ended September 30, 2015 and had a working capital deficiency of \$5.1 million as of September 30, 2015. As a result, our short-term business focus has been to preserve our liquidity position. Unless we are successful in obtaining additional liquidity, we believe that we will not have sufficient cash and liquid assets to fund normal operations for the next 12 months. In addition, the Company's obligations under its pension plan exceeded plan assets by \$6.4 million at September 30, 2015 and the Company has a significant amount due to its pension plan over the next 12 months. In addition, the Company has not made the December 1, 2009, 2010 and 2011 required sinking fund payments on its 9½% Subordinated debentures due 2012 (the "Debentures") and the June 1, 2010, 2011 and 2012 as well as its December 1, 2010, 2011 and 2012 interest payments totaling \$301,000. The Company also did not make the March 1, 2010, 2011 and 2012 as well as its September 1, 2010 and 2011 interest payments totaling \$2.1 million on its 8¼% Limited convertible senior subordinated notes due 2012 (the "Notes"). As a result, if the Company is

unable to (i) obtain additional liquidity for working capital, (ii) make the required minimum funding contributions to the pension plan, (iii) make the required sinking fund payments on the Debentures and/or (iv) make the required principal and interest payments on the Notes and the Debentures, there would be a significant adverse impact on the financial position and operating results of the Company, which could require the disposition of some or all of our assets, which could require us to curtail or cease operations. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that may result from the outcome of this uncertainty. See Note 5 - Long-Term Debt for further details.

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Of these fixed cash obligations, thus far in 2015 using cash on hand and cash from operating activities, the Company has made \$650,000 of payments to the Company's pension plan, with approximately \$591,000 of contributions remaining for 2015. Historically, we have made certain required contributions after their respective due dates, and we have not yet made required contributions of \$197,000 due in each of April, July and October 2015. The Pension Benefit Guaranty Corporation (the "PBGC") has placed a lien on all of the Company's assets in respect of amounts owed under the plan. If we are unable to fulfill our related obligations, the enforcement of such lien would have a material adverse impact on our financial condition, results of operations and liquidity.

The Company continues to consider further exchanges of the \$1.1 million of remaining Notes and the \$334,000 of remaining Debentures. The Company will seek additional financing in the form of debt and/or equity (though currently the only ongoing financing is the rights offering described in the next paragraph) in order to provide enough cash to cover our remaining current fixed cash obligations as well as providing working capital. During the three months ended June 30, 2015, the Company entered into a credit agreement for \$1.5 million, of which \$1.0 million has been borrowed to date. See Note 5 Long-Term Debt for further details. However, there can be no assurance as to the amounts, if any, the Company will receive in any additional financings (including the rights offering described in the next paragraph) or the terms thereof (other than the rights offering). To the extent the Company issues additional equity securities, it could be dilutive to existing shareholders.

On June 25, 2015, the Company filed a registration statement (as subsequently amended on July 31, 2015, August 7, 2015, August 19, 2015 and September 15, 2015) relating to a rights offering of Series B Convertible Preferred Stock intended to raise up to \$10.2 million before expenses. The registration statement was declared effective by the SEC on September 24, 2015. The rights offering commenced on October 14, 2015 and expires on November 19, 2015 (extended from the original expiration date November 4, 2015). The Company intends to use the net proceeds for repayment of debt, required pension plan payments and for general corporate purposes. Under the terms of the rights offering, the Company distributed one non-transferrable right for each outstanding share of Common Stock to stockholders of record on September 28, 2015. Thirty-three non-transferable rights entitle the holder to purchase one share of Series B Convertible Preferred Stock at a subscription price of \$20.00 per share. The Series B Convertible Preferred Stock carries a 6.0% cumulative annual dividend and is convertible into shares of Common Stock at an initial conversion price of \$10.00 per share, representing a conversion ratio of 20 shares of Common Stock for each share of Series B Convertible Preferred Stock held at the time of conversion, subject to adjustment. The shares of Series B Convertible Preferred Stock may be subject to mandatory conversion after three years, or as early as one year if the closing sale price of the Common Stock has been greater than or equal to \$15.00 for 30 consecutive trading days. There can be no assurance as to the amount that the Company will raise in the rights offering. This Quarterly Report on Form 10-Q does not constitute an offer to sell, or the solicitation of an offer to buy, any securities, and there will be no sale of any securities in any state in which such an offer, solicitation, or purchase would be unlawful prior to the registration or qualification of such securities under the securities laws of any such state. The offer of the shares of Series B Convertible Preferred Stock issuable upon exercise of the rights is made only by means of the prospectus dated October 14, 2015 forming a part of Trans-Lux's registration statement filed with and declared effective by the SEC, and related documents.



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The Company carries its money market funds and cash surrender value of life insurance related to its deferred compensation arrangements at fair value. The fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds using quoted market prices, a Level 1 or an observable input, and the cash surrender value of life insurance, a Level 2 based on observable inputs primarily from the counter party. The Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$1,000 and \$55,000, respectively, at September 30, 2015 and December 31, 2014. The carrying amounts of cash equivalents, receivables and accounts payable approximate fair value due to the short maturities of these items. The fair value of the Company's 8¼% Limited convertible senior subordinated notes due 2012 and 9½% Subordinated debentures due 2012, using observable inputs, was \$244,000 and \$33,000, respectively, at September 30, 2015 and December 31, 2014. The fair value of the Company's remaining long-term debt including current portion approximates its carrying value of \$1.4 million at September 30, 2015 and \$394,000 at December 31, 2014.

The fair value of warrants is calculated using the Black-Scholes method at the time of issuance of the warrants. At December 31, 2014, there were no warrants classified under the liability method as they had all expired by November 14, 2014. The Black-Scholes calculated values totaling \$252,000 of the equity warrants issued to directors in 2013 are being amortized over their vesting periods of one, two and three years. The equity warrants issued in 2015 and 2014 were fully vested at the date of issuance, so their Black-Scholes calculated values of \$21,000 and \$92,000, respectively, were fully charged to the equity section at the date of issuance.

**Note 4 Inventories**

Inventories are stated at the lower of cost or market and consist of the following:

|                  | September 30 |       | December 31 |       |
|------------------|--------------|-------|-------------|-------|
| In thousands     | 2015         |       | 2014        |       |
| Raw materials    | \$           | 2,626 | \$          | 2,408 |
| Work-in-progress |              | 600   |             | 399   |



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|                 |    |       |    |       |
|-----------------|----|-------|----|-------|
| Finished goods  |    | 186   |    | 220   |
| Gross Inventory |    | 3,412 |    | 3,027 |
| Less Reserve    |    | 1,256 |    | 1,216 |
| Net Inventory   | \$ | 2,156 | \$ | 1,811 |

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**Note 5 Long-Term Debt**

The Company has outstanding \$1.1 million of Notes which are no longer convertible into common shares and which matured as of March 1, 2012; interest was payable semi-annually and interest expense continues to be accrued. Such Notes were not exchanged into cash and the Company's Common Stock as part of an exchange offer in 2011. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the March 1, 2010 and 2011 and September 1, 2010 and 2011 semi-annual interest payments of \$418,000 each and the March 1, 2012 semi-annual interest and principal payment of \$1.4 million to the trustee. The non-payments constituted an event of default under the Indenture governing the Notes. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Notes outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately. The Company currently does not have any senior indebtedness. If the Company subsequently incurs any senior indebtedness, the Notes would be subordinate to any senior indebtedness of the Company.

The Company has outstanding \$334,000 of Debentures which matured on December 1, 2012; interest was payable semi-annually and interest expense continues to be accrued. Such Debentures were not exchanged into cash as part of an exchange offer in 2011. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the December 1, 2009, 2010 and 2011 sinking fund payments of \$106,000 each, the June 1, 2010, 2011 and 2012 and the December 1, 2010 and 2011 semi-annual interest payments of \$50,000 each and the December 1, 2012 semi-annual interest and principal payment of \$790,000 to the trustee. The non-payments constituted an event of default under the Indenture governing the Debentures. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Debentures outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately. The Company currently does not have any senior indebtedness. If the Company subsequently incurs any senior indebtedness, the Debentures would be subordinate to any senior indebtedness of the Company.

On April 23, 2015, the Company entered into a Credit Agreement (the "Credit Agreement") with BFI Capital Fund II, LLC ( "Lender") for \$1.5 million at a fixed rate of interest of 12.00%, with a maturity date of May 1, 2016, which may be extended at the Company's option for an additional six months, provided that the Company is not in default at the time of extension and has paid the Lender an extension fee of 1.00% of the then principal balance of the loan. As of September 30, 2015, the Company has borrowed \$1.0 million under the Credit Agreement, which has been used for working capital. The funds utilized to make the loan included \$500,000 of funding provided by Marco Elser, a director of the Company, to the Lender. In connection with the Credit Agreement, the Company granted the Lender a security interest in all of its assets. The Company also issued the Lender a warrant to purchase 10,000 shares of Common Stock at an exercise price of \$12.00 per share.

The Company, through a subsidiary, has a \$350,000 mortgage, of which \$68,000 is current, on its facility located in Des Moines, Iowa at a fixed rate of interest of 5.95% payable in monthly installments through March 1, 2020, which requires a compensating balance of \$100,000. The mortgage was due to mature on March 1, 2015, at which time the

mortgage was extended for 5 years, the fixed interest rate was adjusted from 6.50% to 5.95% and the compensating balance was adjusted from \$200,000 to \$100,000.

Table of Contents**Note 6 Pension Plan**

As of December 31, 2003, the benefit service under the pension plan had been frozen and, accordingly, there is no service cost. As of April 30, 2009, the compensation increments had been frozen and, accordingly, no additional benefits are being accrued under the pension plan.

The following table presents the components of net periodic pension cost:

| In thousands                       | Three months ended September 30 |        | Nine months ended September 30 |        |
|------------------------------------|---------------------------------|--------|--------------------------------|--------|
|                                    | 2015                            | 2014   | 2015                           | 2014   |
| Interest cost                      | \$ 144                          | \$ 140 | \$ 432                         | \$ 422 |
| Expected return on plan assets     | (169)                           | (150)  | (507)                          | (449)  |
| Amortization of net actuarial loss | 140                             | 90     | 420                            | 268    |
| Net periodic pension cost          | \$ 115                          | \$ 80  | \$ 345                         | \$ 241 |

As of September 30, 2015, the Company has recorded a current pension liability of \$1.2 million, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets, and a long-term pension liability of \$5.3 million, which is included in Deferred pension liability and other in the Condensed Consolidated Balance Sheets. The minimum required contribution in 2015 is expected to be \$1.2 million, of which \$650,000 has already been paid through September 30, 2015, with approximately \$591,000 of contributions remaining for 2015. Historically, we have made certain required contributions after their respective due dates, and we have not yet made required contributions of \$197,000 due in each of April, July and October 2015. We expect to make all of our required contributions for 2015, however there is no assurance that we will be able to make any or all the remaining 2015 payments. The PBGC has placed a lien on all of the Company's assets in respect of amounts owed under the plan. If we are unable to fulfill our related obligations, the enforcement of such lien would have a material adverse impact on our financial condition, results of operations and liquidity.

The pension plan asset information included below is presented at fair value. ASC 820 establishes a framework for measuring fair value and required disclosures about assets and liabilities measured at fair value. The fair values of these assets are determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its mutual stock funds using quoted market prices, a Level 1 or an observable input. The Company does not have any Level 2 pension assets, in which such valuation would be based on observable inputs and quoted prices in markets that are not active, or Level 3 pension assets, in which such valuation would be based on unobservable measurements and management's estimates.

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The following table presents the pension plan assets by level within the fair value hierarchy as of September 30, 2015:

| In thousands              | Level 1  | Level 2 | Level 3 | Total |
|---------------------------|----------|---------|---------|-------|
| Equity and index funds    | \$ 5,197 | \$ -    | \$ -    | 5,197 |
| Fixed income funds        | 2,505    |         |         | 2,505 |
| Total pension plan assets | \$ 7,702 | \$ -    | \$ -    | 7,702 |

In March 2010, 2011 and 2013, we submitted to the IRS requests for waivers of the 2009, 2010 and 2012 minimum funding standards for our defined benefit pension plan. The waiver requests were submitted as a result of the economic climate and the business hardship we experienced. The 2009, 2010 and 2012 plan year waivers have been approved and granted subject to certain conditions, and deferred payment of \$285,000, \$559,000 and \$871,000 of the minimum funding standard for the 2009, 2010 and 2012 plan years, respectively. If we do not fulfill the conditions of the waivers, the PBGC and the IRS have various enforcement remedies that can be implemented to protect the participant's benefits, such as termination of the plan or a requirement that we make the unpaid contributions. In support of such enforcement remedies, the PBGC has placed a lien on all of our assets in respect of amounts owed under the plan. As of September 30, 2015, we had made \$650,000 of our required contributions for 2015, with approximately \$591,000 of contributions remaining for 2015. Historically, we have made certain required contributions after their respective due dates, and we have not yet made required contributions of \$197,000 due in each of April, July and October 2015. We have been in communications with the PBGC regarding the amount of contributions due and not yet made and the remainder of our required contributions for 2015, and in light of the business hardship we experienced, we believe that the PBGC will continue to work with us on the timing of such contributions, all of which we expect to make. However there is no assurance that we will be able to make any or all the remaining 2015 contributions, or that the PBGC and the IRS will refrain from implementing any enforcement remedies with respect to contributions due and not yet made. If we are unable to fulfill our related obligations, the implementation of any such enforcement remedies would have a material adverse impact on our financial condition, results of operations, and liquidity.

**Note 7 Share-Based Compensation**

The Company accounts for all share-based payments to employees and board members, including grants of employee stock options, at fair value and expenses the benefit in the Condensed Consolidated Statements of Operations over the

service period (generally the vesting period). The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes pricing valuation model, which requires various assumptions including estimating stock price volatility, expected life of the stock option, risk free interest rate and forfeiture rate.

The Company did not issue any stock options during the nine month periods ended September 30, 2015 and 2014. There are no unrecognized compensation costs related to unvested stock options granted under the Company's stock option plans.

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The following table summarizes the activity of the Company's stock options for the nine months ended September 30, 2015:

|  | Options | Weighted<br>Average<br>Exercise<br>Price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Yrs) | Aggregate<br>Intrinsic<br>Value (\$) |
|--|---------|---|---|--------------------------------------|
| Outstanding at beginning of year             | 40      | 16.25   |   |                                      |
| Granted                                      | -       | -   |   |                                      |
| Exercised                                    | -       | -   |   |                                      |
| Terminated                                   | -       | -   |   |                                      |
| Outstanding at end of period                 | 40      | 16.25   | 0.3   |                                      |
| Vested and expected to vest at end of period | 40      | 16.25   | 0.3   | -                                    |
| Exercisable at end of period                 | 40      | 16.25   | 0.3   | -                                    |



## **Note 8 Income (Loss) Per Common Share**

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, adjusted for shares that would be assumed outstanding after warrants and stock options vested under the treasury stock method. At September 30, 2015 and 2014, there were outstanding equity warrants convertible into 85,300 and 245,800 shares of Common Stock, respectively, which were excluded from the calculation of diluted income (loss) per share because their impact would have been anti-dilutive. At September 30, 2015 and 2014, there were outstanding stock options to purchase 40 and 60 shares of Common Stock, respectively, which were excluded from the calculation of diluted income (loss) per share because their impact would have been anti-dilutive.

## **Note 9 Contingencies**

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business and/or which are covered by insurance. The Company believes that it has accrued adequate reserves individually and in the aggregate for such legal proceedings. Should actual litigation results differ from the Company's estimates, revisions to increase or decrease the accrued reserves may be required.

## **Note 10 Business Segment Data**

Operating segments are based on the Company's business components about which separate financial information is available and are evaluated regularly by the Company's chief operating decision makers in deciding how to allocate resources and in assessing performance of the business.



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The Company evaluates segment performance and allocates resources based upon operating income (loss). The Company's operations are managed in two reportable business segments: Digital product sales and Digital product lease and maintenance. Both design and produce large-scale, multi-color, real-time digital products and LED lighting, which has a line of energy-saving lighting solutions that provide facilities and public infrastructure with green lighting solutions that emit less heat, save energy and enable creative designs. Both operating segments are conducted on a global basis, primarily through operations in the United States. The Company also has operations in Canada. The Digital product sales segment sells equipment and the Digital product lease and maintenance segment leases and maintains equipment. Corporate general and administrative items relate to costs that are not directly identifiable with a segment. There are no intersegment sales.

Foreign revenues represent less than 10% of the Company's revenues in 2015 and 2014. The foreign operation does not manufacture its own equipment; the domestic operation provides the equipment that the foreign operation leases or sells. The foreign operation operates similarly to the domestic operation and has similar profit margins. Foreign assets are immaterial.

Information about the Company's operations in its two business segments for the three and nine months ended September 30, 2015 and 2014 is as follows:

| In thousands                                      | Three Months Ended September 30 |          | Nine Months Ended September 30 |           |
|---|---------------------------------|----------|--------------------------------|-----------|
|   | 2015                            | 2014     | 2015                           | 2014      |
| Revenues:   |                                 |          |                                |           |
| Digital product sales                             | \$ 7,289                        | \$ 4,861 | \$ 15,809                      | \$ 14,639 |
| Digital product lease and maintenance             | 873                             | 1,262    | 2,751                          | 3,849     |
| Total revenues                                    | \$ 8,162                        | \$ 6,123 | \$ 18,560                      | \$ 18,488 |
| Operating income (loss):                          |                                 |          |                                |           |
| Digital product sales                             | \$ 743                          | \$ (11)  | \$ 554                         | \$ (945)  |
| Digital product lease and maintenance             | 125                             | 292      | 636                            | 446       |
| Corporate general and administrative expenses     | (590)                           | (624)    | (2,009)                        | (1,978)   |
| Total operating income (loss)                     | 278                             | (343)    | (819)                          | (2,477)   |
| Interest expense, net                             | (87)                            | (49)     | (210)                          | (189)     |
| Warrant expense and change in warrant liabilities | (18)                            | (7)      | (53)                           | (383)     |
| Income (loss) before income taxes                 | 173                             | (399)    | (1,082)                        | (3,049)   |

|                    |    |     |          |            |            |
|--------------------|----|-----|----------|------------|------------|
| Income tax expense |    | -   | (8)      | (8)        | (24)       |
| Net income (loss)  | \$ | 173 | \$ (407) | \$ (1,090) | \$ (3,073) |

## Note 11 Subsequent Events

On June 25, 2015, the Company filed a registration statement (as subsequently amended on July 31, 2015, August 7, 2015, August 19, 2015 and September 15, 2015) relating to a rights offering of Series B Convertible Preferred Stock intended to raise up to \$10.2 million before expenses. The registration statement was declared effective by the SEC on September 24, 2015. The rights offering commenced on October 14, 2015 and expires on November 19, 2015 (extended from the original expiration date of November 4, 2015). The Company intends to use the net proceeds for repayment of debt, required pension plan payments and for general corporate purposes. Under the terms of the rights offering, the Company distributed one non-transferrable right for each outstanding share of Common Stock to stockholders of record on September 28, 2015. Thirty-three non-transferable rights entitle the holder to purchase one share of Series B Convertible Preferred Stock at a subscription price of \$20.00 per share. The Series B Convertible Preferred Stock carries a 6.0% cumulative annual dividend and is convertible into shares of Common Stock at an initial conversion price of \$10.00 per share, representing a conversion ratio of 20 shares of Common Stock for each share of Series B Convertible Preferred Stock held at the time of conversion, subject to adjustment. The shares of Series B Convertible Preferred Stock may be subject to mandatory conversion after three years, or as early as one year if the closing sale price of the Common Stock has been greater than or equal to \$15.00 for 30 consecutive trading days. There can be no assurance as to the amount that the Company will raise in the rights offering. This Quarterly Report on Form 10-Q does not constitute an offer to sell, or the solicitation of an offer to buy, any securities, and there will be no sale of any securities in any state in which such an offer, solicitation, or purchase would be unlawful prior to the registration or qualification of such securities under the securities laws of any such state. The offer of the shares of Series B Convertible Preferred Stock issuable upon exercise of the rights is made only by means of the prospectus dated October 14, 2015 forming a part of Trans-Lux's registration statement filed with and declared effective by the SEC, and related documents.



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

## Overview

Trans-Lux is a leading supplier of LED technology for high resolution video displays and lighting applications. The essential elements of these systems are the real-time, programmable digital products and lighting fixtures that we design, manufacture, distribute and service. Designed to meet the digital signage solutions for any size venue's indoor and outdoor needs, these displays are used primarily in applications for the financial, banking, gaming, corporate, advertising, transportation, entertainment and sports markets. The Company's LED lighting fixtures offer energy-saving lighting solutions that feature a comprehensive offering of the latest LED lighting technologies that provide facilities and public infrastructure with green lighting solutions that emit less heat, save energy and enable creative designs. The Company operates in two reportable segments: Digital product sales and Digital product lease and maintenance.

The Digital product sales segment includes worldwide revenues and related expenses from the sales of both indoor and outdoor digital product signage and LED lighting solutions. This segment includes the financial, government/private, gaming, scoreboards and outdoor advertising markets. The Digital product lease and maintenance segment includes worldwide revenues and related expenses from the lease and maintenance of both indoor and outdoor digital product signage. This segment includes the lease and maintenance of digital product signage across all markets.

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**Going Concern**

While the Company has improved operations and reduced operating losses in 2015, the Company has incurred significant recurring losses from operations in prior years and continues to have a significant working capital deficiency. As a result, we do not have adequate liquidity, including access to the debt and equity capital markets, to operate our business in the manner in which we have historically operated. Our short-term business focus has been to preserve our liquidity position. Unless we are successful in obtaining additional liquidity, we believe that we will not have sufficient cash and liquid assets to fund normal operations for the next 12 months. In addition, the Company's obligations under its pension plan exceeded plan assets by \$6.5 million at September 30, 2015 and the Company has a significant amount due to its pension plan due over the next 12 months. Further, the Company has not made the December 1, 2009, 2010 and 2011 required sinking fund payments on its 9½% Subordinated debentures due 2012 (the "Debentures") and the June 1, 2010, 2011 and 2012 as well as its December 1, 2010, 2011 and 2012 interest payments totaling \$301,200. In addition, the Company did not make the March 1, 2010, 2011 and 2012 as well as its September 1, 2010 and 2011 interest payments totaling \$2.1 million on its 8¼% Limited Convertible Senior Subordinated Notes due 2012 (the "Notes"). These non-payments constituted events of default under the indentures governing the Debentures and the Notes. The trustees, by notice to the Company, or the holders of 25% of the principal amount of the Debentures or the Notes outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest under the Debentures or the Notes, as applicable, due and payable immediately. As a result, if the Company is unable to (i) obtain additional liquidity for working capital, (ii) make the required minimum funding contributions to the pension plan, (iii) make the required sinking fund payments on the Debentures or (iv) make the required principal and interest payments on the Notes and the Debentures, there would be a significant adverse impact on the financial position and operating results of the Company.

Moreover, because of the uncertainty surrounding our ability to obtain additional liquidity and the potential of the noteholders and/or trustees to give notice to the Company of a default on either the Debentures or the Notes, our independent registered public accounting firm issued an opinion on our December 31, 2014 Consolidated Financial Statements that states that the Consolidated Financial Statements were prepared assuming we will continue as a going concern, however the opinion further states that the uncertainty regarding the ability to make the required principal and interest payments on the Notes and the Debentures, in addition to the significant amount due to the Company's pension plan over the next 12 months, raises substantial doubt about our ability to continue as a going concern. See Note 2 to the Condensed Consolidated Financial Statements - Going Concern.

Table of Contents**Results of Operations****Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014**

The following table presents our Statements of Operations data, expressed as a percentage of revenue for the three months ended September 30, 2015 and 2014:

| In thousands except percentages                   | 2015     |         | 2014     |         |
|---|----------|---------|----------|---------|
| Revenues:   |          |         |          |         |
| Digital product sales                             | \$ 7,289 | 89.3%   | \$ 4,861 | 79.4%   |
| Digital product lease and maintenance             | 873      | 10.7%   | 1,262    | 20.6%   |
| Total revenues                                    | 8,162    | 100.0%  | 6,123    | 100.0%  |
| Cost of revenues:                                 |          |         |          |         |
| Cost of digital product sales                     | 5,541    | 67.9%   | 3,324    | 54.3%   |
| Cost of digital product lease and maintenance     | 700      | 8.6%    | 955      | 15.6%   |
| Total cost of revenues                            | 6,241    | 76.5%   | 4,279    | 69.9%   |
| Gross profit                                      | 1,921    | 23.5%   | 1,844    | 30.1%   |
| General and administrative expenses               | (1,643)  | (20.1)% | (2,187)  | (35.7)% |
| Operating income (loss)                           | 278      | 3.4%    | (343)    | (5.6)%  |
| Interest expense, net                             | (87)     | (1.1)%  | (49)     | (0.8)%  |
| Warrant expense and change in warrant liabilities | (18)     | (0.2)%  | (7)      | (0.1)%  |
| Income (loss) before income taxes                 | 173      | 2.1%    | (399)    | (6.5)%  |
| Income tax expense                                | -        | - %     | (8)      | (0.1)%  |
| Net income (loss)                                 | \$ 173   | 2.1%    | \$ (407) | (6.6)%  |



Total revenues for the three months ended September 30, 2015 increased \$2.0 million or 33.3% to \$8.2 million from \$6.1 million for the three months ended September 30, 2014, primarily due to an increase in Digital product sales, partly offset by a decrease in Digital product lease and maintenance revenues.

Digital product sales revenues increased \$2.4 million or 49.9%, primarily due to increases in the scoreboard and lighting markets, primarily due to the expansion of our sales dealer networks.

Digital product lease and maintenance revenues decreased \$389,000 or 30.8%, primarily due to the continued expected revenue decline in the older outdoor display equipment rental and maintenance bases acquired in the early 1990s. The financial services market continues to be negatively impacted by consolidation within that industry and the wider use of flat-panel screens for smaller applications.

Total operating income (loss) for the three months ended September 30, 2015 increased \$621,000 to income of \$278,000 from a loss of \$343,000 for the three months ended September 30, 2014, principally due to the increase in revenues and a reduction in general and administrative expenses.

Digital product sales operating income (loss) increased \$754,000 to income of \$743,000 for the three months ended September 30, 2015 compared to a loss of \$11,000 for the three months ended September 30, 2014, primarily due to the increase in revenues and a reduction in general and administrative expenses. The cost of Digital product sales increased \$2.2 million or 66.7%, primarily due to the increase in revenues. The cost of Digital product sales represented 76.0% of related revenues in 2015 compared to 68.4% in 2014. Digital product sales general and administrative expenses decreased \$543,000 or 35.1%, primarily due to a decrease in the allowance for uncollectible accounts and the closing of our Georgia sales office.

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Digital product lease and maintenance operating income decreased \$167,000, primarily as a result of the decrease in revenues and an increase in general and administrative expenses. The cost of Digital product lease and maintenance decreased \$255,000 or 26.7%, primarily due to a \$141,000 decrease in depreciation expense and a \$114,000 decrease in field service costs to maintain the displays. The cost of Digital product lease and maintenance revenues represented 80.2% of related revenues in 2015 compared to 75.7% in 2014. The cost of Digital product lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital product lease and maintenance general and administrative expenses increased \$33,000, primarily due to an increase in the allowance for uncollectible accounts.

Corporate general and administrative expenses decreased \$34,000 or 5.4%, primarily due to a \$162,000 gain on Canadian currency exchange in 2015 compared to a \$122,000 gain on Canadian currency exchange in 2014.

Net interest expense increased \$38,000 or 77.6%, primarily due to an increase in long-term debt and higher borrowing rates.

The warrant expense in 2015 is attributable to the amortization of equity warrants granted to directors in 2013. The warrant expense and change in warrant liabilities in 2014 is primarily attributable to the change in the fair market value of the warrants, as well as the amortization of equity warrants granted to directors in 2013. All liability warrants expired in November 2014.

The effective tax rate for the three months ended September 30, 2015 and 2014 was 0.0% and 2.0%, respectively. Both the 2015 and 2014 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses. The income tax expense relates to the Company's Canadian subsidiary.

Table of Contents**Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014**

The following table presents our Statements of Operations data, expressed as a percentage of revenue for the nine months ended September 30, 2015 and 2014:

| In thousands except percentages                   | 2015       |         | 2014       |         |
|---|------------|---------|------------|---------|
| Revenues:   |            |         |            |         |
| Digital product sales                             | \$ 15,809  | 85.2%   | \$ 14,639  | 79.2%   |
| Digital product lease and maintenance             | 2,751      | 14.8%   | 3,849      | 20.8%   |
| Total revenues                                    | 18,560     | 100.0%  | 18,488     | 100.0%  |
| Cost of revenues:                                 |            |         |            |         |
| Cost of digital product sales                     | 12,102     | 65.2%   | 11,339     | 61.4%   |
| Cost of digital product lease and maintenance     | 2,003      | 10.8%   | 3,004      | 16.2%   |
| Total cost of revenues                            | 14,105     | 76.0%   | 14,343     | 77.6%   |
| Gross profit                                      | 4,455      | 24.0%   | 4,145      | 22.4%   |
| General and administrative expenses               | (5,274)    | (28.4)% | (6,622)    | (35.8)% |
| Operating loss                                    | (819)      | (4.4)%  | (2,477)    | (13.4)% |
| Interest expense, net                             | (210)      | (1.1)%  | (189)      | (1.0)%  |
| Warrant expense and change in warrant liabilities | (53)       | (0.3)%  | (383)      | (2.1)%  |
| Loss before income taxes                          | (1,082)    | (5.8)%  | (3,049)    | (16.5)% |
| Income tax expense                                | (8)        | (0.1)%  | (24)       | (0.1)%  |
| Net loss  | \$ (1,090) | (5.9)%  | \$ (3,073) | (16.6)% |

Total revenues for the nine months ended September 30, 2015 increased \$72,000 or 0.4% to \$18.6 million from \$18.5 million for the nine months ended September 30, 2014, primarily due to an increase in Digital product sales, mostly offset by a decrease in Digital product lease and maintenance revenues.

Digital product sales revenues increased \$1.2 million or 8.0%, primarily due to increased sales from our sports channel sales partners.

Digital product lease and maintenance revenues decreased \$1.1 million or 28.5%, primarily due to the continued expected revenue decline in the older outdoor display equipment rental and maintenance bases acquired in the early 1990s. The financial services market continues to be negatively impacted by the current investment climate resulting in consolidation within that industry and the wider use of flat-panel screens for smaller applications.

Total operating loss for the nine months ended September 30, 2015 decreased \$1.7 million to \$819,000 from \$2.5 million for the nine months ended September 30, 2014, principally due to a reduction in general and administrative expenses.

Digital product sales operating income (loss) increased \$1.5 million to income of \$554,000 for the nine months ended September 30, 2015 compared to a loss of \$945,000 for the nine months ended September 30, 2014, primarily due to a decrease in general and administrative expenses. The cost of Digital product sales increased \$763,000 or 6.7%, primarily due to the increase in revenues. The cost of Digital product sales represented 76.6% of related revenues in 2015 compared to 77.5% in 2014. Digital product sales general and administrative expenses decreased \$1.1 million or 25.7%, primarily due to decreases in marketing expenses, the allowance for uncollectible accounts and payroll and benefits.



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Digital product lease and maintenance operating income increased \$190,000 to \$636,000 in 2015 from \$446,000 in 2014, primarily as a result of a decrease in general and administrative expenses. The cost of Digital product lease and maintenance decreased \$1.0 million or 33.3%, primarily due to a \$413,000 decrease in depreciation expense and a \$588,000 decrease in field service costs to maintain the displays. The cost of Digital product lease and maintenance revenues represented 72.8% of related revenues in 2015 compared to 78.0% in 2014. The cost of Digital product lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital product lease and maintenance general and administrative expenses decreased \$287,000 or 71.9%, primarily due to a decrease in the allowance for uncollectible accounts.

Corporate general and administrative expenses increased \$31,000 or 1.6%, primarily due to an increase in payroll and benefits, partly offset by a \$352,000 gain on Canadian currency exchange in 2015 compared to a \$92,000 gain on Canadian currency exchange in 2014.

Net interest expense increased \$21,000 or 11.1%, primarily due to an increase in long-term debt and higher borrowing rates.

The warrant expense in 2015 is attributable to the amortization of equity warrants granted to directors in 2013. The warrant expense and change in warrant liabilities in 2014 is primarily attributable to the change in the fair market value of the warrants, as well as the amortization of equity warrants granted to directors in 2013. All liability warrants expired in November 2014.

The effective tax rate for the nine months ended September 30, 2015 and 2014 was 0.7% and 0.8%, respectively. Both the 2015 and 2014 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses. The income tax expense relates to the Company's Canadian subsidiary.

## **Liquidity and Capital Resources**

### **Current Liquidity**

While the Company has improved operations and reduced operating losses in 2015, the Company has incurred significant recurring losses from operations in prior years and continues to have a significant working capital deficiency. The Company incurred a net loss of \$1.1 million in the nine months ended September 30, 2015 and had a working capital deficiency of \$5.1 million as of September 30, 2015.

The Company is dependent on future operating performance in order to generate sufficient cash flows in order to continue to run its businesses. Future operating performance is dependent on general economic conditions, as well as financial, competitive and other factors beyond our control. We have experienced a decline in our lease and maintenance business and the cash flows of the Company are constrained, and in order to more effectively manage its cash resources in these challenging economic times, the Company has, from time to time, increased the timetable of its payment of some of its payables. There can be no assurance that we will meet our anticipated current and near term cash requirements. Management believes that its current cash resources and cash provided by operations would not be sufficient to fund its anticipated current and near term cash requirements and is seeking additional financing in order to execute our operating plan. We cannot predict whether future financing, if any, will be in the form of equity, debt, or a combination of both. As described herein, the Company is currently undertaking a rights offering of Series B Convertible Preferred Stock. We may not be able to obtain additional funds on a timely basis, on acceptable terms, or at all. The Company continually evaluates the need and availability of long-term capital in order to meet its cash requirements and fund potential new opportunities.



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The Company used cash of \$1.1 million for operating activities for the nine months ended September 30, 2015 and \$2.0 million for the nine months ended September 30, 2014. The Company has implemented several initiatives to improve operational results and cash flows over future periods, including reducing head count, reorganizing its sales department, outsourcing its human resources department and expanding its sales and marketing efforts in the LED lighting market. The Company continues to explore ways to reduce operational and overhead costs. The Company periodically takes steps to reduce the cost to maintain the digital products on lease and maintenance agreements.

Cash and cash equivalents decreased \$561,000 in the nine months ended September 30, 2015. The decrease is primarily attributable to cash used in operating activities of \$1.1 million, investment in property and equipment of \$190,000, payments of rights offering costs of \$131,000, investment in equipment manufactured for rental of \$61,000 and scheduled payments of long-term debt of \$43,000, partly offset by proceeds from long-term debt of \$1.0 million.

Under various agreements, the Company is obligated to make future cash payments in fixed amounts. These include payments under the Company's current and long-term debt agreements, pension plan contributions, employment agreement payments and rent payments required under operating lease agreements. The Company has both variable and fixed interest rate debt. Interest payments are projected based on actual interest payments incurred in 2015 until the underlying debts mature.

The following table summarizes the Company's fixed cash obligations as of September 30, 2015 for the remainder of 2015 and over the next four fiscal years:

| In thousands                                   | Remainder of |          |          |        |        |
|--|--------------|----------|----------|--------|--------|
|  | 2015         | 2016     | 2017     | 2018   | 2019   |
| Current and long-term debt, including interest | \$ 2,218     | \$ 1,139 | \$ 89    | \$ 89  | \$ 89  |
| Pension plan payments                          | 591          | 778      | 627      | 372    | 245    |
| Employment agreement obligations               | 112          | 361      | 300      | 38     | -      |
| Estimated warranty liability                   | 15           | 57       | 46       | 36     | 26     |
| Operating lease payments                       | 105          | 392      | 287      | 83     | 21     |
| Legal settlement, including interest           | 42           | 55       | -        | -      | -      |
| Total  | \$ 3,083     | \$ 2,782 | \$ 1,349 | \$ 618 | \$ 381 |

Of these fixed cash obligations, the Company continues to consider further exchanges of the \$2.1 million, including interest, of remaining Notes and Debentures for an aggregate amount of \$277,000. The Company is seeking additional financing in order to provide enough cash to cover our remaining current fixed cash obligations as well as providing working capital. However, there can be no assurance as to the amounts, if any, the Company will receive in any additional financings or the terms thereof. To the extent the Company issues additional equity securities, it could be dilutive to existing shareholders.

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On June 25, 2015, the Company filed a registration statement (as subsequently amended on July 31, 2015, August 7, 2015, August 19, 2015 and September 15, 2015) relating to a rights offering of Series B Convertible Preferred Stock intended to raise up to \$10.2 million before expenses. The registration statement was declared effective by the SEC on September 24, 2015. The rights offering commenced on October 14, 2015 and expires on November 19, 2015 (extended from the original expiration date of November 4, 2015). The Company intends to use the net proceeds for repayment of debt, required pension plan payments and for general corporate purposes. Under the terms of the rights offering, the Company distributed one non-transferrable right for each outstanding share of Common Stock to stockholders of record on September 28, 2015. Thirty-three non-transferable rights entitle the holder to purchase one share of Series B Convertible Preferred Stock at a subscription price of \$20.00 per share. The Series B Convertible Preferred Stock carries a 6.0% cumulative annual dividend and is convertible into shares of Common Stock at an initial conversion price of \$10.00 per share, representing a conversion ratio of 20 shares of Common Stock for each share of Series B Convertible Preferred Stock held at the time of conversion, subject to adjustment. The shares of Series B Convertible Preferred Stock may be subject to mandatory conversion after three years, or as early as one year if the closing sale price of the Common Stock has been greater than or equal to \$15.00 for 30 consecutive trading days. There can be no assurance as to the amount that the Company will raise in the rights offering. This Quarterly Report on Form 10-Q does not constitute an offer to sell, or the solicitation of an offer to buy, any securities, and there will be no sale of any securities in any state in which such an offer, solicitation, or purchase would be unlawful prior to the registration or qualification of such securities under the securities laws of any such state. The offer of the shares of Series B Convertible Preferred Stock issuable upon exercise of the rights is made only by means of the prospectus dated October 14, 2015 forming a part of Trans-Lux's registration statement filed with and declared effective by the SEC, and related documents.

## **Long-Term Debt**

The Company has outstanding \$1.1 million of 8¼% Limited convertible senior subordinated notes due 2012 (the Notes) which are no longer convertible into common shares and which matured as of March 1, 2012; interest was payable semi-annually and interest expense continues to be accrued. Such Notes were not exchanged for cash and Common Stock as part of an exchange offer in 2011. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the March 1, 2010 and 2011 and September 1, 2010 and 2011 semi-annual interest payments of \$418,000 each and the March 1, 2012 semi-annual interest and principal payment of \$1.4 million to the trustee. The non-payments constitute an event of default under the Indenture governing the Notes. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Notes outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately. The Company currently does not have any senior indebtedness. If the Company subsequently incurs any senior indebtedness, the Notes would be subordinate to any senior indebtedness of the Company.



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The Company has outstanding \$334,000 of 9½% Subordinated debentures due 2012 (the Debentures ) which matured on December 1, 2012; interest was payable semi-annually and interest expense continues to be accrued. Such Debentures were not exchanged for cash as part of an exchange offer in 2011. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the December 1, 2009, 2010 and 2011 sinking fund payments of \$106,000 each, the June 1, 2010, 2011 and 2012 and the December 1, 2010 and 2011 semi-annual interest payments of \$50,000 each and the December 1, 2012 semi-annual interest and principal payment of \$790,000 to the trustee. The non-payments constitute an event of default under the Indenture governing the Debentures. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Debentures outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately. The Company currently does not have any senior indebtedness. If the Company subsequently incurs any senior indebtedness, the Debentures would be subordinate to any senior indebtedness of the Company.

On April 23, 2015, the Company entered into a Credit Agreement (the Credit Agreement ) with BFI Capital Fund II, LLC ( Lender ) for \$1.5 million at a fixed rate of interest of 12.00%, with a maturity date of May 1, 2016, which may be extended at the Company's option for an additional six months, provided that the Company is not in default at the time of extension and has paid the Lender an extension fee of 1.00% of the then principal balance of the loan. As of September 30, 2015, the Company has borrowed \$1.0 million under the Credit Agreement, which has been used for working capital. The funds utilized to make the loan included \$500,000 of funding provided by Marco Elser, a director of the Company, to the Lender. In connection with the Credit Agreement, the Company granted the Lender a security interest in all of its assets. The Company also issued the Lender a warrant to purchase 10,000 shares of Common Stock at an exercise price of \$12.00 per share.

The Company, through a subsidiary, has a \$350,000 mortgage, of which \$68,000 is current, on its facility located in Des Moines, Iowa at a fixed rate of interest of 5.95% payable in monthly installments through March 1, 2020, which requires a compensating balance of \$100,000. The mortgage was due to mature on March 1, 2015, at which time the mortgage was extended for 5 years, the fixed interest rate was adjusted from 6.50% to 5.95% and the compensating balance was adjusted from \$200,000 to \$100,000.

At September 30, 2015 and December 31, 2014, there were no warrants classified under the liability method as they had all expired by November 14, 2014.

## **Pension Plan Contributions**

In March 2010, 2011 and 2013, we submitted to the IRS requests for waivers of the 2009, 2010 and 2012 minimum funding standards for our defined benefit pension plan. The waiver requests were submitted as a result of the economic climate and the business hardship we experienced. The 2009, 2010 and 2012 plan year waivers have been approved and granted subject to certain conditions, and deferred payment of \$285,000, \$559,000 and \$871,000 of the minimum funding standard for the 2009, 2010 and 2012 plan years, respectively. If we do not fulfill the conditions of the waivers, the Pension Benefit Guaranty Corporation (the PBGC) and the IRS have various enforcement remedies that can be implemented to protect the participant's benefits, such as termination of the plan or a requirement that we make the unpaid contributions. In support of such enforcement remedies, the PBGC has placed a lien on all of our assets in respect of amounts owed under the plan. As of September 30, 2015, we had made \$650,000 of our required contributions for 2015, with approximately \$591,000 of contributions remaining for 2015. Historically, we have made certain required contributions after their respective due dates, and we have not yet made required contributions of \$197,000 due in each of April, July and October 2015. We have been in communications with the PBGC regarding the amount of contributions due and not yet made and the remainder of our required contributions for 2015, and in light of the business hardship we experienced, we believe that the PBGC will continue to work with us on the timing of such contributions, all of which we expect to make. However there is no assurance that we will be able to make any or all the remaining 2015 contributions, or that the PBGC and the IRS will refrain from implementing any enforcement remedies with respect to contributions due and not yet made. If we are unable to fulfill our related obligations, the implementation of any such enforcement remedies would have a material adverse impact on our financial condition, results of operations, and liquidity.

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**Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use words or phrases of expectation or uncertainty like believe, anticipate, plan, expect, intent, project, future, may, will, could, would, help identify forward-looking statements. Examples of forward-looking statements include statements regarding our future financial results, operating results, business strategies, projected costs, product development or future sales, competitive positions and plans and objectives of management for future operations.

We have based these forward-looking statements on our current expectations and projections about future events. However, they are subject to various risks and uncertainties, many of which are outside our control, including the circumstances described in the section entitled Risk Factors in this report and in our Annual Report on Form 10-K for the year ended December 31, 2014. Accordingly, our actual results or financial condition could differ materially and adversely from those discussed in, or implied by, these forward-looking statements. We caution you not to place undue reliance on our forward-looking statements. Each forward-looking statement speaks only as of the date on which it is made, and, except to the extent required by federal securities laws, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk on its long-term debt. The Company manages its exposure to changes in interest rates by the use of variable and fixed interest rate debt. The fair value of the Company's fixed rate long-term debt is disclosed in Note 3 to the Condensed Consolidated Financial Statements Fair Value. At September 30, 2015, the Company did not have any variable interest rate debt. In addition, the Company is exposed to foreign currency exchange rate risk mainly as a result of its investment in its Canadian subsidiary. A 10% change in the Canadian dollar relative to the U.S. dollar would result in a currency exchange expense fluctuation of approximately \$260,000, based on dealer quotes, considering current exchange rates. The Company does not enter into derivatives for trading or speculative purposes. At September 30, 2015, the Company did not hold any derivative financial instruments.

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Item 4. Controls and Procedures

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2015 to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management (including our Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosures.

*Changes in Internal Control over Financial Reporting.* There has been no change in the Company's internal control over financial reporting that occurred in the quarter ended September 30, 2015, or in other factors that could significantly affect these controls, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business and/or which are covered by insurance. The Company believes that it has accrued adequate reserves individually and in the aggregate for such legal proceedings. Should actual litigation results differ from the Company's estimates, revisions to increase or decrease the accrued reserves may be required.



Item 1A. Risk Factors

The Company is subject to a number of risks including general business and financial risk factors. Any or all of such factors could have a material adverse effect on the business, financial condition or results of operations of the Company. You should carefully consider the risk factors identified herein and in our Annual Report on Form 10-K for the year ended December 31, 2014 other than as set forth below.

*We have received waivers, subject to certain conditions, of the 2009, 2010 and 2012 minimum funding standards for our defined benefit pension plan, which, if we fail to fulfill the required conditions for, may result in the termination of the plan or require us to make the unpaid contributions.*

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In March 2010, 2011 and 2013, we submitted to the IRS requests for waivers of the 2009, 2010 and 2012 minimum funding standards for our defined benefit pension plan. The waiver requests were submitted as a result of the economic climate and the business hardship we experienced. The 2009, 2010 and 2012 plan year waivers have been approved and granted subject to certain conditions, and deferred payment of \$285,000, \$559,000 and \$871,000 of the minimum funding standard for the 2009, 2010 and 2012 plan years, respectively. If we do not fulfill the conditions of the waivers, the PBGC and the IRS have various enforcement remedies that can be implemented to protect the participant's benefits, such as termination of the plan or a requirement that we make the unpaid contributions. In support of such enforcement remedies, the PBGC has placed a lien on all of our assets in respect of amounts owed under the plan. As of September 30, 2015, we had made \$650,000 of our required contributions for 2015, with approximately \$591,000 of contributions remaining for 2015. Historically, we have made certain required contributions after their respective due dates, and we have not yet made required contributions of \$197,000 due in each of April, July and October 2015. We have been in communications with the PBGC regarding the amount of contributions due and not yet made and the remainder of our required contributions for 2015, and in light of the business hardship we experienced, we believe that the PBGC will continue to work with us on the timing of such contributions, all of which we expect to make. However there is no assurance that we will be able to make any or all the remaining 2015 contributions, or that the PBGC and the IRS will refrain from implementing any enforcement remedies with respect to contributions due and not yet made. If we are unable to fulfill our related obligations, the implementation of any such enforcement remedies would have a material adverse impact on our financial condition, results of operations, and liquidity.

***We have significant debt, which could impair our financial condition.***

As of September 30, 2015, we had debt of approximately \$2.8 million, including approximately \$2.5 million reflected under current portion of long-term debt in our consolidated balance sheet. Our ability to satisfy our obligations will be dependent upon our future performance, which is subject to prevailing economic conditions and financial, business and other factors, including factors beyond our control. There can be no assurance that our operating cash flows will be sufficient to meet our long-term debt service requirements or that we will be able to refinance indebtedness at maturity.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No. Description

31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

**TRANS-LUX CORPORATION**  
(Registrant)

by: /s/ Robert J. Conologue  
Robert J. Conologue  
Senior Vice President and  
Chief Financial Officer

by: /s/ Todd Dupee  
Todd Dupee  
Vice President and Controller

Date: November 13, 2015