

300232

2019-114

123016

**Trans-Lux Corporation**

**2019**



Trans-Lux Corporation

2019 8 14 2019

Trans-Lux Corporation 2019

<https://www.sec.gov/>

2019 8 15

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



[illegible]

---

---

---

---

---

---

---

---

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

This image shows a single sheet of white paper with horizontal blue or grey ruling lines, typical of notebook paper. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

---

*The following new accounting pronouncements were adopted in 2019:*

*Leases (Topic 842)*

---

---

*Improvements to Nonemployee Share-Based Payment Accounting*

*The following new accounting pronouncements, and related impacts on adoption, are being evaluated by the Company:*

*Intangibles – Goodwill and Other (Topic 350)*

---



---

---

**Disaggregated Revenues**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |



**Contract Balances with Customers**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

|  |  |
|--|--|
|  |  |
|  |  |

**Transaction Price Allocated to Future Performance Obligations – alternative more qualitative presentation**

**Costs to Obtain or Fulfill a Customer Contract**

**Note 4 – Inventories**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

**Note 5 – Rental Equipment, net**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

**Note 6 – Property, Plant and Equipment, net**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

**Note 7 Long-Term Debt**

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

[Table of Contents](#)

On June 11, 2018, the Company entered into a Subordinated Secured Promissory Note (the "SMI Note") with SM Investors, L.P. ("SMI"), pursuant to which the Company borrowed \$330,000 from SMI at an interest rate of 12.00%. The maturity date of the SMI Note was the earlier of June 11, 2020 or the Company's completion of an additional financing package of at least \$1 million. The Company also issued SMI a three-year warrant to purchase 82,500 shares of the Company at an exercise price of \$0.01 per share. The Company utilized the Black-Scholes method to calculate the fair value of this warrant at the time of issuance, which was \$95,000, and was being treated as a debt discount amortized over the two-year term of the loan. On April 17, 2019, the Company satisfied the SMI Note in full and the remaining debt discount of \$53,000 was written off and included in loss on extinguishment of debt on the Condensed Consolidated Statements of Operations.

On June 11, 2018, the Company entered into another Subordinated Secured Promissory Note (the "SMII Note") with SM Investors II, L.P. ("SMII"), pursuant to which the Company borrowed \$670,000 from SMII at an interest rate of 12.00%. The maturity date of the SMII Note was the earlier of June 11, 2020 or the Company's completion of an additional financing package of at least \$1 million. The Company also issued SMII a three-year warrant to purchase 167,500 shares of the Company at an exercise price of \$0.01 per share. The Company utilized the Black-Scholes method to calculate the fair value of this warrant at the time of issuance, which was \$192,000, and was being treated as a debt discount amortized over the two-year term of the loan. On April 17, 2019, the Company satisfied the SMII Note in full and the remaining debt discount of \$109,000 was written off and included in loss on extinguishment of debt on the Condensed Consolidated Statements of Operations.

The Company has a \$500,000 loan from Carlisle Investments Inc. ("Carlisle") at a fixed interest rate of 12.00%, which matured on April 27, 2019 with a bullet payment of all principal due at such time. Interest is payable monthly. Carlisle has agreed to not demand payment on the loan through at least December 31, 2020. As of June 30, 2019, the entire amount was outstanding and is included in long-term debt, less current portion in the Condensed Consolidated Balance Sheets. As of June 30, 2019 and December 31, 2018, the Company had accrued \$90,000 and \$60,000, respectively, of interest related to this loan. Carlisle has agreed to not demand payment on \$60,000 of the interest as of June 30, 2019, so it is included in deferred pension liability and other in the Condensed Consolidated Balance Sheets. The remaining \$30,000 of accrued interest as of June 30, 2019 and the \$60,000 of accrued interest as of December 31, 2

---

[Table of Contents](#)

As of June 30, 2019 and December 31, 2018, the Company had outstanding \$352,000 and \$387,000, respectively, of 8¼% Limited convertible senior subordinated notes due 2012 (the "Notes") which are no longer convertible into common shares. The Notes matured as of March 1, 2012 and are currently in default. On February 15, 2019, holders of \$35,000 of the Notes accepted the Company's offer to exchange each \$1,000 of principal, forgiving any related interest, for \$200 in cash, for an aggregate payment by the Company of \$7,000. As a result of the transaction, the Company recorded a gain on the extinguishment of debt, net of expenses, of

---

[Table of Contents](#)

The following table presents the components of net periodic pension cost for the three and six months ended June 30, 2019 and 2018:

| In thousands                           | Three months ended June 30 |         | Six months ended June 30 |         |
|----------------------------------------|----------------------------|---------|--------------------------|---------|
|                                        | 2019                       | 2018    | 2019                     | 2018    |
| Interest cost                          | \$ 126                     | \$ 114  | \$ 251                   | \$ 227  |
| Expected return on plan assets         | (173)                      | (203)   | (345)                    | (406)   |
| Amortization of net actuarial loss     | 66                         | 56      | 131                      | 112     |
| Net periodic pension expense (benefit) | \$ 19                      | \$ (33) | \$ 37                    | \$ (67) |

As of June 30, 2019 and December 31, 2018, the Company had recorded a current pension liability of \$475,000 and \$623,000, respectively, which is included in accrued liabilities in the Condensed Consolidated Balance Sheets, and a long-term pension liability of \$3.5 million and \$3.7 million, respectively, which is included in deferred pension liability and other in the Condensed Consolidated Balance Sheets. The minimum required contribution in 2019 is expected to be \$629,000, of which the Company contributed \$391,000 in the first half of the year and \$85,000 subsequent to June 30, 2019.

#### Note 9 – Leases

The Company leases administrative and manufacturing facilities through operating lease agreements. The Company has no finance leases as of June 30, 2019. Our leases include both lease (e.g., fixed payments including rent) and non-lease components (e.g., common area or other maintenance costs). The facility leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion, therefore, the renewals to extend the lease terms are not included in our ROU assets or lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and, when they are reasonably certain of exercise, we include the renewal period in our lease term.

Operating leases result in the recognition of ROU assets and lease liabilities on the Condensed Consolidated Balance Sheets. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate at the commencement date to determine the present value of lease payments. Most real estate leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 5 years or more. Lease expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the Condensed Consolidated Balance Sheets. The primary leases we enter into with initial terms of 12 months or less are for equipment.

[Table of Contents](#)

Supplemental information regarding leases:

| In thousands, unless otherwise noted          | June 30<br>2019 |
|-----------------------------------------------|-----------------|
| <b>Balance Sheet:</b>                         |                 |
| ROU assets                                    | \$ 1,281        |
| Current lease liabilities                     | 322             |
| Non-current lease liabilities                 | 994             |
| Total lease liabilities                       | 1,316           |
| Weighted average remaining lease term (years) | 3.0             |
| Weighted average discount rate                | 8.9%            |
| Future minimum lease payments:                |                 |
| 2019                                          | \$ 245          |
| 2020                                          | 349             |
| 2021                                          | 342             |
| 2022                                          | 348             |
| 2023                                          | 295             |
| Thereafter                                    | -               |
| Total                                         | 1,579           |
| Less: Imputed interest                        | 263             |
| Total lease liabilities                       | 1,316           |
| Less: Current lease liabilities               | 322             |
| Long-term lease liabilities                   | \$ 994          |

Supplemental cash flow information regarding leases:

|  | For the three<br>months ended<br>June 30,<br>2019 | For the six<br>months ended<br>June 30,<br>2019 |
|--|---------------------------------------------------|-------------------------------------------------|
|  |                                                   |                                                 |
|  |                                                   |                                                 |
|  |                                                   |                                                 |

**Note 10 – Stockholders' Deficit and Loss Per Share**

The following table presents the calculation of loss per share for the three and six months ended June 30, 2019 and 2018:

| In thousands, except per share data | Three months ended June 30 |      | Six months ended June 30 |      |
|-------------------------------------|----------------------------|------|--------------------------|------|
|                                     | 2019                       | 2018 | 2019                     | 2018 |
| Numerator:                          |                            |      |                          |      |
|                                     |                            |      |                          |      |
|                                     |                            |      |                          |      |
|                                     |                            |      |                          |      |





\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

|       |       |
|-------|-------|
| _____ |       |
| _____ |       |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

\_\_\_\_\_



### Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

The following table presents our Statements of Operations data, expressed as a percentage of revenue for the three months ended June 30, 2019 and 2018:

|                                               | Three months ended June 30 |         |         |            |         |
|-----------------------------------------------|----------------------------|---------|---------|------------|---------|
| In thousands, except percentages              | 2019                       |         | 2018    |            |         |
| Revenues:                                     |                            |         |         |            |         |
| Digital product sales                         | \$                         | 3,113   | 83.1 %  | \$ 2,353   | 76.8 %  |
| Digital product lease and maintenance         |                            | 634     | 16.9 %  | 709        | 23.2 %  |
| Total revenues                                |                            | 3,747   | 100.0 % | 3,062      | 100.0 % |
| Cost of revenues:                             |                            |         |         |            |         |
| Cost of digital product sales                 |                            | 2,219   | 59.2 %  | 2,093      | 68.4 %  |
| Cost of digital product lease and maintenance |                            | 180     | 4.8 %   | 420        | 13.7 %  |
| Total cost of revenues                        |                            | 2,399   | 64.0 %  | 2,513      | 82.1 %  |
| Gross profit                                  |                            | 1,348   | 36.0 %  | 549        | 17.9 %  |
| General and administrative expenses           |                            | (1,313) | (35.1)% | (1,443)    | (47.1)% |
| Operating income (loss)                       |                            | 35      | 0.9 %   | (894)      | (29.2)% |
| Interest expense, net                         |                            | (80)    | (2.1)%  | (218)      | (7.1)%  |
| (Loss) gain on foreign currency remeasurement |                            | (50)    | (1.3)%  | 50         | 1.6 %   |
| Loss on extinguishment of debt                |                            | (245)   | (6.6)%  | -          | - %     |
| Pension (expense) benefit                     |                            | (19)    | (0.5)%  | 34         | 1.1 %   |
| (Loss) income before income taxes             |                            | (359)   | (9.6)%  | (1,028)    | (33.6)% |
| Income tax expense                            |                            | (6)     | (0.1)%  | -          | - %     |
| Net (loss) income                             | \$                         | (365)   | (9.7)%  | \$ (1,028) | (33.6)% |

Total revenues for the three months ended June 30, 2019 increased \$685,000 or 22.4% to \$3.7 million from \$3.1 million for the three months ended June 30, 2018, primarily due to an increase in Digital product sales, partially offset by a decrease in Digital product lease and maintenance.

Digital product sales revenues increased \$760,000 or 32.3% for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, primarily due to an increase in the sports market.

Digital product lease and maintenance revenues decreased \$75,000 or 10.6% for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, 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 income (loss) for the three months ended June 30, 2019 increased \$929,000 to income of \$35,000 from a loss of \$894,000 for the three months ended June 30, 2018, principally due to the increase in revenues and a decrease in the cost of revenues as a percentage of revenues.

Digital product sales operating income (loss) increased \$690,000 to income of \$248,000 for the three months ended June 30, 2019 compared to a loss of \$442,000 for the three months ended June 30, 2018, primarily due to the increase in revenues and a decrease in the cost of revenue as a percentage of revenues, partially offset by a decrease in general and administrative expenses. The cost -7.

[Table of Contents](#)

Digital product lease and maintenance operating income increased \$157,000 or 60.9% for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, primarily as a result of a decrease in the cost of Digital product lease and maintenance, partially offset by the decrease in revenues. The cost of Digital product lease and maintenance decreased \$240,000 or 57.1%, primarily due to a decrease in depreciation expense. The cost of Digital product lease and maintenance revenues represented 28.4% of related revenues in 2019 compared to 59.2% in 2018. The cost of Digital product lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. General and administrative expenses for Digital product lease and maintenance increased \$8,000 or 25.8%, primarily due to an increase in bad debt expense.

Corporate general and administrative expenses decreased \$82,000 or 11.5% for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, primarily due to a decrease in payroll and benefits and employee expenses.

Net interest expense decreased \$138,000 or 63.3% for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, primarily due to decreases in the average outstanding long-term debt, due to the termination of the CNH and SM Investors loans.

The loss on extinguishment of debt for the three months ended June 30, 2019 represented the write-off of the remaining debt discount costs and the termination fees related to the CNH and SM Investors loans.

The effective tax rate for the three months ended June 30, 2019 and 2018 was 1.7% and 0.0%, respectively. Both the 2019 and 2018 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses.

## **Liquidity and Capital Resources**

### **Current Liquidity**

The Company has incurred recurring losses and continues to have a working capital deficiency. The Company incurred a net loss of \$888,000 in the six months ended June 30, 2019 and had a working capital deficiency of \$824,000 as of June 30, 2019. As of December 31, 2018, the Company had a working capital deficiency of \$8.5 million. The decrease in the working capital deficiency as compared to December 31, 2018 is primarily due to the \$5.5 million of exercises of the Unilumin Warrant and the \$2.5 million raised from the Rights Offering, which allowed us to decrease the current portion of long-term debt and accounts payable, as well as the deferral of the timing of payments owed to certain directors related to \$1.0 million of long-term debt and \$771,000 of accrued liabilities directors.

[Table of Contents](#)

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. In order to more effectively manage its cash resources, the Company had, from time to time, increased the timetable of its payment of some of its payables, which had, from time to time, delayed certain product deliveries from our vendors, which in turn had, from time to time, delayed certain deliveries to our customers. The recent cash infusions have resolved these previous issues.

Certain directors deferred the timing of payments owed to them related to directors' fees and current portion of long-term debt beyond one year. In addition, a stockholder of the Company has committed to providing additional capital up to \$2.0 million, to the extent necessary to fund operations. Management believes that its current cash resources and cash provided by operations will be sufficient to fund its anticipated current and near-term cash requirements and to execute our operating plan. The Company continually evaluates the need and availability of long-term capital, including replacing the Credit Agreement, in order to meet its cash requirements and fund potential new opportunities.

The Company used cash of \$3.8 million and generated cash of \$324,000 from operating activities for the six months ended June 30, 2019 and 2018, respectively. The Company has implemented several initiatives to improve operational results and cash flows over future periods, including reducing head count, reorganizing its sales department and outsourcing certain administrative functions. 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, cash equivalents and restricted cash increased \$690,000 in the six months ended June 30, 2019 to \$2.3 million at June 30, 2019 from \$1.6 million at December 31, 2018. This increase is primarily attributable to the gross proceeds from the exercises of the Unilumin Warrant of \$5.5 million and the gross proceeds from the Rights Offering of \$2.5 million, partially offset by cash used in operating activities of \$3.8 million, primarily to reduce Accounts Payable by \$3.0 million, payments of \$1.6 million to terminate term loans and payments of \$1.4 million to terminate the revolving loan. The current economic environment has increased the Company's trade receivables collection cycle, and its allowances for uncollectible accounts receivable, but collections continue to be favorable.

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 minimum required 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 2019 until the underlying debts mature.

[Table of Contents](#)

The following table summarizes the Company's fixed cash obligations as of June 30, 2019 for the remainder of 2019 and over the next four fiscal years:309 350 32 -3594309

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk on its long-term de

---

[Table of Contents](#)

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 in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes to those previously disclosed risk factors.

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

During the three months ended June 30, 2019, the Company issued 3,608,247 shares of Common Stock pursuant to the exercise of the Unilumin Warrant. The Common Stock issued to Unilumin was issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities

As disclosed in Note 7 to the Condensed Consolidated Financial Statements – Long-Term Debt, as of June 30, 2019 and December 31, 2018, the Company had outstanding \$352,000 and \$387,000, respectively, of Notes which are no longer convertible into common shares. The Notes matured as of March 1, 2012 and are currently in default. As of June 30, 2019 and December 31, 2018, the Company had accrued \$286,000 and \$298,000, respectively, of interest in 8236(s)5.4(p)-4(e)-6.6(-.003(tive)-6

---

[Table of Contents](#)

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 Certification of Alberto Shaio, President and 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, filed herewith.
- 31.2 Certification of Todd Dupee, Senior Vice President and Chief Accounting Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.1 Certification of Alberto Shaio, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.2 Certification of Todd Dupee, Senior Vice President and Chief Accounting Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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/ Alberto Shaio  
Alberto Shaio  
President and  
Chief Executive Officer

by /s/ Todd Dupee  
Todd Dupee  
Senior Vice President and  
Chief Accounting Officer