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Trans-Lux Corporation

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FORM 10-Q

Note 1 Basis of Presentation

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)

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Revenue on sales to distribution partners are recorded net of prompt-pay discounts, if offered, and other deductions. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the most likely amount method to which the Company expects to be entitled. In the case of prompt-pay discounts, there are only two possible outcomes: either the customer pays on-time or does not. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Determination of whether to include estimated amounts in the transaction price are

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Contract Balances with Customers

Contract assets primarily relate to rights to consideration for goods or services transferred to the customer when the right is conditional on something other than the passage of time. The contract assets are transferred to the receivables when the rights become unconditional. As of June 30, 2019 and December 31, 2018, the Company had no contract assets. The contract liabilities primarily relate to the advance consideration received from customers for contracts prior to the transfer of control to the customer and therefore revenue is recognized on completion of delivery. Contract liabilities are classified as deferred revenue by the Company and are included in customer deposits and accrued liabilities in the Condensed Consolidated Balance Sheets.

The following table presents the balances in the Company's receivables and contract liabilities with customers:

In thousands	June 30, 2019	December 31, 2018
Gross receivables	\$ 3,196	\$ 4,067
Allowance for bad debts	644	1,796
Net receivables	2,552	2,271
Contract liabilities	1,325	465

During the three and six months ended June 30, 2019 and 2018, the Company recognized the following revenues as a result of changes in the contract asset and the contract liability balances in the respective periods:

In thousands	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue recognized in the period from:				
Amounts included in the contract liability at the beginning of the period	\$ 149	\$ 205	\$ 350	\$ 753

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

Remaining performance obligations represents the transaction price of contracts for which work has not been performed (or has been partially performed). The

Costs to Obtain or Fulfill a Customer Contract

Prior to the adoption of ASU 2014-09, the Company expensed incremental commissions paid to sales representatives for obtaining customer contracts. Under ASU 2014-09, the Company currently capitalizes these incremental costs of obtaining customer contracts. Capitalized commissions are amortized based on the transfer of the products or services to which the assets relate. Applying the practical expedient in paragraph 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in General and administrative expenses.

The Company accounts for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products. When shipping and handling costs are incurred after a customer obtains control of the products, the Company also has elected to account for these as costs to fulfill the promise and not as a separate performance obligation. Shipping and handling costs associated with the distribution of finished products to customers are recorded in costs of goods sold and are recognized when the related finished product is shipped to the customer.

Note 4 – Inventories

Inventories consist of the following:

In thousands	June 30, 2019	December 31, 2018
Raw materials	\$ 1,396	\$ 1,178
Work-in-progress	840	626
Finished goods	297	397
	<u>\$ 2,533</u>	<u>\$ 2,201</u>

Note 5 – Rental Equipment, net

Rental equipment consists of the following:

In thousands	June 30, 2019	December 31, 2018
Rental equipment	\$ 7,104	\$ 7,109
Less accumulated depreciation	6,011	5,799
Net rental equipment	<u>\$ 1,093</u>	<u>\$ 1,310</u>

Depreciation expense for rental equipment for the six

Note 6 – Property, Plant and Equipment, net

Property, plant and equipment consists of the following:

In thousands	June 30, 2019	December 31, 2018
Machinery, fixtures and equipment	\$ 2,721	\$ 2,691
Leaseholds and improvements	12	12
	2,733	2,703
Less accumulated depreciation	631	523
Net property, plant and equipment	\$ 2,102	\$ 2,180

Machinery, fixtures and equipment having a net book value of \$2.2 million at December 31, 2018 were pledged as collateral under various financing agreements.

Depreciation expense for property, plant and equipment for the six months ended June 30, 2019 and 2018 was \$108,000 and \$144,000, respectively. Depreciation expense for property, plant and equipment for the three months ended June 30, 2019 and 2018 was \$54,000 and \$72,000, respectively.

Note 7 – Long-Term Debt

Long-term debt consists of the following:

In thousands	June 30, 2019	December 31, 2018
8¼% Limited convertible senior subordinated notes due 2012	\$ 352	\$ 387
9½% Subordinated debentures due 2012	220	220
Revolving credit line	-	1,440
Term loans	-	1,590
Term loans - related party	1,000	1,000
Forgivable loan	650	650
Total debt	2,222	5,287
Less deferred financing costs	-	257
Net debt	2,222	5,030
Less portion due within one year	572	3,584
Net long-term debt	\$ 1,650	\$ 1,446

On July 12, 2016, the Company and its wholly-owned subsidiaries Trans-Lux Display Corporation, FairPlay Corporation (formerly Trans-Lux Midwest Corporation) and Trans-Lux Energy Corporation entered into a credit agreement, as subsequently amended on various dates, the latest being on March 1, 2019 (collectively, the "Credit Agreement") with CNH Finance Fund I, L.P. ("CNH") as lender. Under the Credit Agreement, the Company was able to borrow up to an aggregate of \$4.0 million, which included (i) up to \$3.0 million of a revolving loan, at an interest rate of prime plus 9.0% (11.50% at December 31, 2018), and (ii) a \$1.0 million term loan, at an interest rate of prime plus 11.0% (11.50% at December 31, 2018). The availability under the revolving loan was calculated based on certain percentages of eligible receivables and inventory. On November 6, 2018, the Company and CNH agreed to a forbearance agreement which was effective through February 28, 2019, as long as there were no additional defaults under the Credit Agreement. On March 1, 2019, the effectiveness of the forbearance agreement was extended through April 15, 2019. On April 10, 2019, the Company satisfied the Credit Agreement in full and the Credit Agreement was terminated. The termination fee of \$60,000 and the remaining debt discount of \$23,000 were written off and included in loss on extinguishment of debt on the Condensed Consolidated Statements of Operations.

Note 9 Leases

Note 10 – Stockholders' Deficit and Loss Per Share

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 has accrued 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. There are no open matters that the Company deems material.

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In addition to the Company's loans from Carlisle described in Note 7, the Company has the following related party transactions:

Yaozhong Shi, a former director of the Company, is the Chairman of Transtech LED Company Limited ("Transtech"), which is one of our LED suppliers. The Company purchased \$416,000 and \$127,000 of product from Transtech in the six months ended June 30, 2019 and 2018, respectively. The Company purchased \$406,000 and \$64,000 of product from Transtech in the three months ended June 30, 2019 and 2018, respectively. Amounts payable by the Company to Transtech were \$0 and \$305,000 as of June 30, 2019 and December 31, 2018, respectively.

On March 4, 2019, 96.1% of our issued and outstanding SBCPS holders converted their SBCPS into 1,586,400 shares of Common Stock. Such amount included shares of SBCPS held by a greater than 5% stockholder of the Company and certain directors of the Company.

On March 4, 2019, Unilumin exercised \$2.0 million of the Unilumin Warrant and the Company issued 2,061,856 shares of Common Stock, and on April 5, 2019, Unilumin exercised the remaining \$3.5 million of the Unilumin Warrant and the Company issued 3,608,247, raising an aggregate of \$5.5 million for the Company, less issuance costs of \$202,000. As a result of the exercises, Unilumin now holds 52.2% of the Company's outstanding Common Stock, which resulted in a change in control event. The Company did not elect to apply pushdown accounting. Nicholas Fazio, Yang Liu and Yantao Yu, each directors of the Company, are also each directors and/or officers of other subsidiaries of Unilumin's parent company Unilumin Group Co. Ltd.

As of June 30, 2019 and December 31, 2018, the Company had outstanding payables to certain executive officers aggregating \$0 and \$427,000, respectively.

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The Company has evaluated events and transactions subsequent to June 30, 2019 and through the date these Condensed Consolidated Financial Statements were included in this Form 10-Q and filed with the SEC.

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

Trans-Lux is a leading supplier of LED technology for display applications. The essential elements of these systems are the real-time, programmable digital products 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 operates in

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

In thousands, except percentages	Six months ended June 30			
	2019		2018	
Revenues:				
Digital product sales	\$ 6,204	84.5 %	\$ 6,301	82.9 %
Digital product lease and maintenance	1,142	15.5 %	1,296	17.1 %
Total revenues	7,346	100.0 %	7,597	100.0 %
Cost of revenues:				
Cost of digital product sales	4,741	64.5 %	4,880	64.2 %
Cost of digital product lease and maintenance	389	5.3 %	676	8.9 %
Total cost of revenues	5,130	69.8 %	5,556	73.1 %
Gross profit	2,216	30.2 %	2,041	26.9 %
General and administrative expenses	(2,420)	(33.0)%	(2,796)	(36.8)%
Operating income (loss)	(204)	(2.8)%	(755)	(9.9)%
Interest expense, net	(335)	(4.5)%	(414)	(5.4)%
(Loss) gain on foreign currency remeasurement	(107)	(1.5) %	122	1.6%
Loss on extinguishment of debt	(193)	(2.6)%	-	- %
Gain on sale/leaseback transaction	-	- %	11	0.1 %
Pension (expense) benefit	(37)	(0.5)%	68	0.9%

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Digital product sales operating income increased \$246,000 to \$364,000 for the six months ended June 30, 2019 compared to \$118,000 for the six months ended June 30, 2018, primarily due to a decrease in general and administrative expenses, partially offset by the decrease in revenues. The cost of Digital product sales decreased \$139,000 or 2.8%, primarily due to the decrease in revenues. The cost of Digital product sales represented 76.4% of related revenues in 2019 compared to 77.4% in 2018. Without the consulting revenues in 2018, Digital product sales operating income (loss) would have been a loss of \$882,000 in the six months ended June 30, 2018 and the cost of Digital product sales would have represented 92.1% of related revenues in the six months ended June 30, 2018. General and administrative expenses for Digital product sales decreased \$204,000 or 15.7%, primarily due to decreases in marketing expenses, bad debt expenses and employee expenses.

Digital product lease and maintenance operating income increased \$125,000 or 22.8% for the six months ended June 30, 2019 compared to \$425,000 for the six months ended June 30, 2018, primarily due to a decrease in general and administrative expenses, partially offset by the decrease in revenues.

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:

In thousands, except percentages	Three months ended June 30			
	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.

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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.

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.

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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.

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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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,

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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