

TRANS LUX Corp
Form 10-Q
November 09, 2018

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, 2018

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)
135 East 57th Street, 14th Floor, New York, New York
(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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

<u>Date</u>	<u>Class</u>	<u>Shares Outstanding</u>
11/8/18	Common Stock - \$0.001 Par Value	3,624,973

TRANS-LUX CORPORATION AND SUBSIDIARIES

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	CONDENSED CONSOLIDATED BALANCE SHEETS	
	(unaudited)	
	September	December 31,
	30,	2017
In thousands, except share data	2018	(see Note 1)
ASSETS		
Current assets:		Cash and cash equivalents
		\$
		296
		\$
		747
		Accounts receivable, net
		1,975
		3,522
		Inventories
		1,955
		2,164
		Prepays and other assets
		436
		1,539

Total current assets	
	4,662
	7,972
Long-term assets:	
Rental equipment, net	
	1,487
	2,016
Property, plant and equipment, net	
	2,206
	2,286
Goodwill	
	744
	744
Restricted cash	
	950
	1,162
Other assets	
	739
	804
Total long-term assets	

6,126

7,012

TOTAL ASSETS

\$

10,788

\$

14,984

**LIABILITIES AND
STOCKHOLDERS'
DEFICIT**

Current liabilities:

Accounts payable

\$

3,850

\$

2,778

Accrued liabilities

6,255

5,781

Current portion of
long-term debt

2,060

3,529

Current portion of
long-term debt -
related party

	1,000
	500
Customer deposits	
	667
	1,135
Total current liabilities	
	13,832
	13,723
Long-term liabilities:	
Long-term debt, less current portion	
	1,410
	1,034
Long-term debt - related party, less current portion	
	-
	500
Deferred pension liability and other	
	3,287

	3,638
Total long-term liabilities	
	4,697
	5,172
Total liabilities	
	18,529
	18,895
Stockholders' deficit:	
Preferred Stock Series A - \$20 stated value - 416,500 shares authorized;	
shares issued and outstanding: 0 in 2018 and 2017	
	-
	-
Preferred Stock Series B - \$200 stated value - 51,000 shares authorized;	
shares issued and outstanding: 16,512 in 2018 and 2017 (liquidation preference \$3,393,000)	
	3,302

3,302

Common Stock -
\$0.001 par value -
10,000,000 shares
authorized;

shares issued:
2,317,024 in 2018 and
2,190,011 in 2017;

shares outstanding:
2,289,184 in 2018 and
2,162,171 in 2017

2

2

Additional
paid-in-capital

28,560

28,273

Accumulated deficit

(30,937)

(26,889)

Accumulated other
comprehensive loss

(5,605)

(5,536)

Treasury stock - at
cost - 27,840 common
shares in 2018 and
2017

(3,063)

(3,063)

Total stockholders'
deficit

(7,741)

(3,911)

**TOTAL
LIABILITIES AND
STOCKHOLDERS'
DEFICIT**

\$

10,788

\$

14,984

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)

	3 Months Ended			9 Months Ended	
Concept per share data	September 30			September 30	
	2018	2017	2018	2017	
Revenues	\$ 2,857	\$ 9,676	\$ 9,158		
Lease and maintenance	593	650	1,889		
	3,450	10,326	11,047		
	Cost of digital product sales				

Cost of digital product lease and maintenance

Total cost of revenues

Gross profit

General and administrative expenses

Operating (loss) income

Interest expense, net

(Loss) gain on foreign currency remeasurement

Gain on sale/leaseback transaction

Pension benefit

Loss before income taxes

Income tax expense

Net loss

\$

\$

\$

\$

Loss per share - basic and diluted

\$

\$

\$

\$

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

TRANS-LUX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

In thousands	(unaudited)			
	3 Months Ended		9 Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Net loss	\$ (3,080)	\$ (123)	\$ (4,048)	\$ (2,632)
Other comprehensive income (loss):				
Unrealized foreign currency translation gain (loss)	45	97	(69)	187
Total other comprehensive income (loss), net of tax	45	97	(69)	187
Comprehensive loss	\$ (3,035)	\$ (26)	\$ (4,117)	\$ (2,445)

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)

In thousands	Nine Months Ended	
	September 30	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (4,048)	\$ (2,632)
Adjustment to reconcile net loss to net cash provided by (used in)		
operating activities:		
Depreciation and amortization	744	1,007
Amortization of gain on sale/leaseback transaction	(11)	(99)
Amortization of deferred financing fees and debt discount	155	89
(Gain) loss on foreign currency remeasurement	(74)	192
Bad debt expense	1,517	33
Changes in operating assets and liabilities:		
Accounts receivable, net	31	427
Inventories	209	(494)
Prepays and other assets	1,168	(2,132)
Accounts payable	1,072	1,222
Accrued liabilities	339	778
Customer deposits	(468)	1,595
Deferred pension liability and other	(200)	(280)
Net cash provided by (used in) operating activities	434	(294)
Cash flows from investing activities		
Purchases of property, plant and equipment	(135)	(210)
Net cash used in investing activities	(135)	(210)
Cash flows from financing activities		
Proceeds from long-term debt	1,000	2,100
Proceeds from forgivable loan	-	650
Payments of long-term debt	(1,939)	(1,680)
Payments of dividends on preferred stock	-	(99)
Payments for deferred financing fees	(22)	(30)
Net cash (used in) provided by financing activities	(961)	941
Effect of exchange rate changes	(1)	10
Net (decrease) increase in cash, cash equivalents and restricted cash	(663)	447
	1,909	1,218

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Cash, cash equivalents and restricted cash at beginning of year				
Cash, cash equivalents and restricted cash at end of period	\$	1,246	\$	1,665
Supplemental disclosure of cash flow information:				
Interest paid	\$	408	\$	355
Income taxes paid		26		23
Supplemental non-cash financing activities:				
Warrants issued to SMI and SMII	\$	287	\$	-
Reconciliation of cash, cash equivalents and restricted cash to amounts				

reported in the Condensed Consolidated Balance Sheets at end of period:
Current assets

Cash and cash equivalents

\$

296

\$

503

Long-term assets

Restricted cash

950

1,162

Cash, cash equivalents and restricted cash at end of period

\$

1,246

\$

1,665

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, 2018

(unaudited)

Note 1 Basis of Presentation

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

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, 2017. The Condensed Consolidated Balance Sheet at December 31, 2017 is derived from the December 31, 2017 audited financial statements.

The following new accounting pronouncements were adopted in 2018:

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation - Retirement Benefits (Topic 715)*. ASU 2017-07 improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. Public business entities should apply the amendments in ASU 2017-07 for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years (i.e., January 1, 2018). Early application is permitted. The adoption of this standard did not have a material effect on the Company's consolidated financial position and results of operations. See Note 8 Pension Plan for further details on the effect of the change.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires Restricted cash and restricted cash equivalents to be included within beginning and ending total cash amounts reported in the Condensed Consolidated Statements of Cash Flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. This standard is effective for annual and interim reporting periods for fiscal years beginning after December 31, 2017. We adopted the guidance in 2018 and retrospectively adopted the guidance back to January 1, 2017. Upon adoption, the \$550,000 of changes in Restricted cash in the nine months ended September 30, 2017, which had previously been presented as investing activities, are now included within beginning and ending cash and equivalents balances in our Consolidated Statements of Cash Flows. Additionally, in August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provided guidance on certain cash flow issues. ASU 2016-15 is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2017 (i.e., January 1, 2018). We adopted the guidance retrospectively effective as of January 1, 2018, which did not have a material effect on the Company's consolidated financial position and results of operations.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures. The Company applied this standard effective January 1, 2018 using the modified retrospective method. The Company has elected to apply this initial application of the standard only to contracts that are not completed at the date of initial application. For contracts which were modified before the adoption date, the Company has not restated the contract for those modifications. Instead, the Company reflected the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price, if necessary. The cumulative effect of initially applying the new revenue standard would be applied as an adjustment to the opening balance of retained earnings. The Company determined that there was no cumulative effect to be recorded and, except for the required financial statement disclosures included in Note 3 Revenue Recognition, there was no impact to the Company's condensed consolidated financial statements.

Other than the foregoing changes, there have been no material changes in our significant accounting policies during the nine months ended September 30, 2018 from the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)*. ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Public business entities should apply the amendments in ASU 2018-14 for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years (i.e., January 1, 2021). Early application is permitted. The Company does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 provides companies with an option to reclassify stranded tax effects within accumulated other comprehensive income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (the TCJ Act) (or portion thereof) is recorded. ASU 2018-02 also requires disclosure of a description of the accounting policy for releasing income tax effects from AOCI and whether an election was made to reclassify the stranded income tax effects from the TCJ Act. Public business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019). Early application is permitted. The Company is in the process of evaluating this pronouncement but has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

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In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. ASU 2017-04 simplifies the test for goodwill impairment. Public business entities should apply the amendments in ASU 2017-04 for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years (i.e., January 1, 2020). Early application is permitted. The Company does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019). Early application is permitted. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an additional (and optional) transition method to adopt the new leases standard whereby an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company is in the process of evaluating this pronouncement and believes that our adoption of the standard will likely have a material impact to our Condensed Consolidated Balance Sheets for the recognition of certain operating leases as right-of-use assets of approximately \$1.3 million and lease liabilities of \$1.3 million. We are in the process of analyzing our leases, implementing systems, developing processes and internal controls and finalizing our accounting policies to comply with the standard's adoption requirements.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 eliminates the separate accounting model for nonemployee share-based payment awards and generally requires companies to account for share-based payment transactions with nonemployees in the same way as share-based payment transactions with employees. The accounting remains different for attribution, which represents how the equity-based payment cost is recognized over the vesting period, and a contractual term election for valuing nonemployee equity share options. Public business entities should apply the amendments in ASU 2018-07 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019). Early application is permitted for all entities on a modified retrospective basis. The Company does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

Table of Contents**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 accompanying Condensed Consolidated Financial Statements assuming the Company will continue as a going concern.

We do not have adequate liquidity, including access to the debt and equity capital markets, to operate our business over the next 12 months from the date of issuance of this Form 10-Q. The Company had a working capital deficiency of \$9.2 million as of September 30, 2018. As a result, our short-term business focus continues to be to preserve our liquidity position. While we received gross proceeds of \$1.5 million from the sale of 1,315,789 shares of Common Stock as described in Note 13 Subsequent Events, unless we are successful in obtaining additional liquidity, we believe that we will not have sufficient cash and liquid assets to fund normal operations and, as such, there is substantial doubt about the Company's ability to continue as a going concern for the next 12 months from the date of issuance of this Form 10-Q. In addition, the Company's obligations under its pension plan exceeded plan assets by \$4.1 million at September 30, 2018, including \$817,000 of minimum required contributions due over the next 12 months. The Company is in default on its 8¼% Limited convertible senior subordinated notes due 2012 (the Notes) and 9½% Subordinated debentures due 2012 (the Debentures), which have remaining principal balances of \$387,000 and \$220,000, respectively. Also, as of September 30, 2018, the Company was not in compliance with the fixed charge coverage ratio covenant related to its Credit Agreement (hereinafter defined). The Company and CNH Finance Fund I, L.P. (CNH) agreed to a forbearance with respect to the default caused by our non-compliance with the fixed charge coverage ratio covenant as of September 30, 2018. Such amounts due to CNH mature within the next 12 months. As a result, if the Company is unable to (i) obtain additional liquidity for working capital, (ii) make the minimum required contributions to the defined benefit pension plan, (iii) make the required principal and interest payments on the Notes and the Debentures and/or (iv) attain and maintain compliance with all debt covenants, there would be a significant adverse impact on the financial position and operating results of the Company. 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 7 Long-Term Debt for further details.

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 and the Company has no agreements, commitments or understandings with respect to any such additional financing. To the extent the Company issues additional equity securities, it could be dilutive to existing shareholders. In addition, the Company's current outstanding debt and other obligations could limit its ability to incur more debt.

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Note 3 Revenue Recognition

Under the new revenue recognition guidance provided by ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of this standard, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of this standard, the Company assesses the goods or services promised within each contract and determines those that are performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Sales tax, value added tax and other taxes collected on behalf of third parties are excluded from revenue.

Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying the practical expedient in paragraph 606-10-32-18, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less. None of the Company's contracts contained a significant financing component as of September 30, 2018.

Disaggregated Revenues

The following table represents a disaggregation of revenue from contracts with customers for the three and nine months ended September 30, 2018 and 2017, along with the reportable segment for each category:

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In thousands	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Digital product sales:				
Catalog and small customized products	\$ 2,857	\$ 5,270	\$ 8,158	\$ 11,210
Large customized products	-	4,406	1,000	4,406
Subtotal	2,857	9,676	9,158	15,616
Digital product lease and maintenance	593	650	1,889	1,765
Total	\$ 3,450	\$ 10,326	\$ 11,047	\$ 17,381

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Performance Obligations

The Company has two primary revenue streams which are Digital product sales and Digital product lease and maintenance.

Digital Product Sales

The Company recognizes net revenue on digital product sales to its distribution partners and to end users related to digital display solutions, fixed digit scoreboards and LED lighting fixtures and lamps. For the Company's catalog products, revenue is generally recognized when the customer obtains control of the Company's product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract. For the Company's customized products, revenue is either recognized at a point in time or over time depending on the size of the contract. For those customized product contracts that are smaller in size, revenue is generally recognized when the customer obtains control of the Company's product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract. For those customized product contracts that are larger in size, revenue is recognized over time based on incurred costs as compared to projected costs using the input method, as this best reflects the Company's progress in transferring control of the customized product to the customer. The Company may also contract with a customer to perform installation services of digital display products. Similar to the larger customized products, the Company recognizes the revenue associated with installation services using the input method, whereby the basis is the total contract costs incurred to date compared to the total expected costs to be incurred.

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 based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available. The Company believes that the estimates it has established are reasonable based upon current facts and circumstances. Applying different judgments to the same facts and circumstances could result in the estimated amounts to vary. The Company offers an assurance-type warranty that the digital display products will conform to the published specifications. Returns may only be made subject to this warranty and not for convenience.

Table of Contents*Digital Product Lease and Maintenance*

Lease and maintenance contracts generally run for periods of one month to 10 years. A contract entered into by the Company with a customer may contain both lease and maintenance services (either or both services may be agreed upon based on the individual customer contract). Maintenance services may consist of providing labor, parts and software maintenance as may be required to maintain the customer's equipment in proper operating condition at the customer's service location. The Company concluded the lease and maintenance services represent a series of distinct services and the most representative method for measuring progress towards satisfying the performance obligation of these services is the input method. Additionally, maintenance services require the Company to stand ready to provide support to the customer when and if needed. As there is no discernable pattern of efforts other than evenly over the lease and maintenance terms, the Company will recognize revenue straight-line over the lease and maintenance terms of service.

The Company has an enforceable right to payment for performance completed to date, as evidenced by the requirement that the customer pay upfront for each month of services. Lease and maintenance service amounts billed ahead of revenue recognition are recorded in deferred revenue and are included in Accrued liabilities in the Condensed Consolidated Balance Sheets.

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 September 30, 2018 and December 31, 2017, 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 and included in 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	September 30, 2018	December 31, 2017
Gross receivables	\$ 3,738	\$ 3,753
Allowance for bad debts	1,763	231

Net receivables	1,975	3,522
Contract liabilities	895	1,209

During the three and nine months ended September 30, 2018, the Company recognized bad debt expense of \$1.3 million and \$1.5 million, respectively, primarily related to two customers. During the three and nine months ended September 30, 2017, the Company recognized bad debt recovery of \$20,000 and bad debt expense of \$33,000, respectively.

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During the three and nine months ended September 30, 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:

	Three months ended	Nine months ended
	September 30,	September 30,
In thousands	2018	2018
Revenue recognized in the period from: amounts included in the contract liability at the		
beginning of the period	\$ 218	\$ 806
Performance obligations satisfied in previous periods (for example, due to changes in transaction price)	-	-

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 guidance provides certain practical expedients that limit this requirement and, therefore, the Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations for digital product sales was \$2.6 million and digital product lease and maintenance was \$3.9 million. The Company expects to recognize revenue on approximately 64%, 22% and 14% of the remaining performance obligations over the next 12 months, 13 to 36 months and 37 or more months, respectively.

Costs to Obtain or Fulfill a Customer Contract

Prior to the adoption of ASU 2014-9, the Company expensed incremental commissions paid to sales representatives for obtaining customer contracts. Under ASU 2014-9, 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.

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Inventories consist of the following:

In thousands	September 30, 2018	December 31, 2017
Raw materials	\$ 1,200	\$ 1,204
Work-in-progress	588	704
Finished goods	167	256
	\$ 1,955	\$ 2,164

Note 5 Rental Equipment, net

Rental equipment consists of the following:

In thousands	September 30, 2018	December 31, 2017
Rental equipment	\$ 10,425	\$ 10,425
Less accumulated depreciation	8,938	8,409
Net rental equipment	\$ 1,487	\$ 2,016

Depreciation expense for rental equipment for the nine months ended September 30, 2018 and 2017 was \$529,000 and \$827,000, respectively. Depreciation expense for rental equipment for the three months ended September 30, 2018 and 2017 was \$176,000 and \$275,000, respectively.

Note 6 Property, Plant and Equipment, net

Property, plant and equipment consists of the following:

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	September 30,	December 31,
In thousands	2018	2017
Machinery, fixtures and equipment	\$ 3,107	\$ 2,972
Leaseholds and improvements	12	12
	3,119	2,984
Less accumulated depreciation	913	698
Net property, plant and equipment	\$ 2,206	\$ 2,286

Machinery, fixtures and equipment having a net book value of \$2.2 million and \$2.3 million at September 30, 2018 and December 31, 2017, respectively, were pledged as collateral under various financing agreements.

Depreciation expense for property, plant and equipment for the nine months ended September 30, 2018 and 2017 was \$215,000 and \$180,000, respectively. Depreciation expense for property, plant and equipment for the three months ended September 30, 2018 and 2017 was \$71,000 and \$60,000, respectively.

Table of Contents**Note 7 Long-Term Debt**

Long-term debt consists of the following:

	September 30,	December 31,
In thousands	2018	2017
8¼% Limited convertible senior subordinated notes due 2012	\$ 387	\$ 387
9½% Subordinated debentures due 2012	220	220
Revolving credit line	933	2,722
Term loans	1,640	790
Term loans - related party	1,000	1,000
Forgivable loan	650	650
Total debt	4,830	5,769
Less deferred financing costs and debt discount	360	206
Net debt	4,470	5,563
Less portion due within one year	3,060	4,029
Net long-term debt	\$ 1,410	\$ 1,534

On July 12, 2016, the Company and its wholly-owned subsidiaries Trans-Lux Display Corporation, Trans-Lux Midwest Corporation and Trans-Lux Energy Corporation (the Borrowers) entered into a credit and security agreement, as subsequently amended on various dates, the latest being on June 11, 2018 (collectively, the Credit Agreement) with CNH as lender, which expires on July 12, 2019. Under the Credit Agreement, the Company is able to borrow up to an aggregate of \$4.0 million, which includes (i) up to \$3.0 million of a revolving loan, at an interest rate of prime plus 6.0% (11.25% at September 30, 2018), which was previously prime plus 4.0% (8.5% at December 31, 2017) and (ii) a \$1.0 million term loan, at an interest rate of prime plus 6.0% (11.25% at September 30, 2018 and December 31, 2017). Interest under the agreement is payable monthly in arrears. The availability under the revolving loan is calculated based on certain percentages of eligible receivables and inventory.

The Credit Agreement contains financial and other covenant requirements, including, but not limited to, financial covenants that require the Borrowers to maintain a fixed charge coverage ratio. As of September 30, 2018, the Company was not in compliance with the fixed charge coverage ratio covenant, which triggered a default under the Credit Agreement. Subsequent to September 30, 2018, the Company and CNH agreed to a forbearance agreement which is effective through February 28, 2019, as long as there are no additional defaults under the Credit Agreement. Under this agreement, CNH will forbear from exercising its rights and remedies under the Credit Agreement for the specified period subject to the agreed terms and conditions, which include an increase in the interest rate and certain other restrictions.

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 has borrowed \$330,000 from SMI at an initial interest rate of 10.00%. The maturity date of the note is 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 is being treated as a debt discount amortized over the two-year term of the loan.

On June 11, 2018, the Company entered into a Subordinated Secured Promissory Note (the "SMII Note") with SM Investors II, L.P. ("SMII"), pursuant to which the Company has borrowed \$670,000 from SMII at an initial interest rate of 10.00%. The maturity date of the note is 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 is being treated as a debt discount amortized over the two-year term of the loan.

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In connection with the financing described in Note 13 Subsequent Events, SMI and SMII agreed to waive their right of payment with respect to the purchase of 1,315,789 shares for \$1.5 million.

In connection with the SMI Note and the SMII Note, the Company and its wholly-owned subsidiaries Trans-Lux Display Corporation, Trans-Lux Midwest Corporation and Trans-Lux Energy Corporation, as borrowers, entered into a Waiver, Consent and Ninth Amendment to the Credit and Security Agreement (Ninth Amendment), dated as of June 11, 2018, with CNH, to provide for certain amendments to that certain Credit and Security Agreement with CNH, dated July 12, 2016, to allow for the Company s entry into the SMI Note and the SMII Note and the security interests granted to SMI and SMII thereunder.

The Company, SMI, SMII and CNH also entered into a Subordination and Intercreditor Agreement (the SIA), dated as of June 11, 2018, setting forth CNH s senior lien position to all collateral of the Company, and the rights of each of CNH, SMI and SMII with respect to the collateral of the Company. The SIA allows the Company to make payments to SMI and SMII as long as the Company is not in default on the Credit and Security Agreement with CNH.

The Company has outstanding \$387,000 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 September 30, 2018 and December 31, 2017, the Company had accrued \$290,000 and \$266,000, respectively, of interest related to the Notes, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets.