

Edgar Filing: TRANS LUX CORP - Form 10-Q

TRANS LUX CORP  
Form 10-Q  
May 20, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2008  
-----

Commission file number 1-2257  
-----

TRANS-LUX CORPORATION  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----

13-1394750  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

110 Richards Avenue, Norwalk, CT  
-----

06856-5090  
-----

(Address of principal executive offices)

(Zip code)

(203) 853-4321  
-----

(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 X No  
--- ---

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

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

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

Date	Class	Shares Outstanding
05/19/08	Common Stock - \$1.00 Par Value	2,020,090
05/19/08	Class B Stock - \$1.00 Par Value (Immediately convertible into a like number of shares of Common Stock.)	286,814

# Edgar Filing: TRANS LUX CORP - Form 10-Q

## TRANS-LUX CORPORATION AND SUBSIDIARIES

### Table of Contents

	Page No.
	-----
Part I - Financial Information (unaudited)	
Item 1. Condensed Consolidated Balance Sheets - March 31, 2008 and December 31, 2007 (audited)	1
Condensed Consolidated Statements of Operations - Three Months Ended March 31, 2008 and 2007	2
Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2008 and 2007	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	15
Item 4. Controls and Procedures	15
Part II - Other Information	
Item 1A. Risk Factors	16
Item 2. Unregistered Sales of Securities and Use of Proceeds	16
Item 3. Defaults upon Senior Securities	16
Item 4. Submission of Matters to a Vote of Security Holders	16
Item 5. Other Information	16
Item 6. Exhibits	17
Signatures	18
Exhibits	

### Part I - Financial Information

#### TRANS-LUX CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31	December 31
	2008	2007
In thousands, except share data		
-----		

Edgar Filing: TRANS LUX CORP - Form 10-Q

(unaudited) (see Note 1)

ASSETS

Current assets:

Cash and cash equivalents	\$ 4,723	\$ 6,591
Available-for-sale securities	167	171
Receivables, less allowance of \$872 - 2008 and \$892 - 2007	5,480	5,233
Unbilled receivables	104	12
Other receivables	2,580	2,580
Inventories	6,758	6,853
Prepays and other	1,358	1,375

Total current assets	21,170	22,815
----------------------	--------	--------

Rental equipment

Rental equipment	67,559	66,626
------------------	--------	--------

Less accumulated depreciation	39,163	37,692
-------------------------------	--------	--------

	28,396	28,934
--	--------	--------

Property, plant and equipment

Property, plant and equipment	40,794	39,858
-------------------------------	--------	--------

Less accumulated depreciation	12,111	11,764
-------------------------------	--------	--------

	28,683	28,094
--	--------	--------

Goodwill

Goodwill	1,004	1,004
----------	-------	-------

Other assets

Other assets	2,909	3,112
--------------	-------	-------

TOTAL ASSETS

TOTAL ASSETS	\$82,162	\$83,959
--------------	----------	----------

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 1,550	\$ 2,439
------------------	----------	----------

Accrued liabilities	8,086	7,633
---------------------	-------	-------

Current portion of long-term debt	6,138	6,276
-----------------------------------	-------	-------

Total current liabilities	15,774	16,348
---------------------------	--------	--------

Long-term debt:

8 1/4% Limited convertible senior subordinated notes due 2012	10,129	10,129
---	--------	--------

9 1/2% Subordinated debentures due 2012	1,057	1,057
---	-------	-------

Notes payable	28,566	28,713
---------------	--------	--------

	39,752	39,899
--	--------	--------

Deferred credits, deposits and other

Deferred credits, deposits and other	3,180	3,116
--------------------------------------	-------	-------

Stockholders' equity:

Capital stock

Common - \$1 par value - 5,500,000 shares authorized,		
---	--	--

2,453,591 shares issued in 2008 and 2007	2,453	2,453
--	-------	-------

Class B - \$1 par value - 1,000,000 shares authorized,		
--	--	--

286,814 shares issued in 2008 and 2007	287	287
--	-----	-----

Additional paid-in-capital	14,734	14,733
----------------------------	--------	--------

Retained earnings	10,821	11,848
-------------------	--------	--------

Accumulated other comprehensive loss	(1,376)	(1,262)
--------------------------------------	---------	---------

	26,919	28,059
--	--------	--------

Less treasury stock - at cost - 433,596 common shares in		
--	--	--

2008 and in 2007	3,463	3,463
------------------	-------	-------

Total stockholders' equity	23,456	24,596
----------------------------	--------	--------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$82,162	\$83,959
--	----------	----------

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

	THREE MONTHS ENDED MARCH 31	
In thousands, except per share data	2008	2007
<hr/>		
Revenues:		
Equipment rentals and maintenance	\$ 2,739	\$ 3,120
Equipment sales	5,174	5,475
Theatre receipts and other	3,188	3,535
	<hr/>	<hr/>
Total revenues	11,101	12,130
	<hr/>	<hr/>
Operating expenses:		
Cost of equipment rentals and maintenance	2,363	2,752
Cost of equipment sales	3,609	3,930
Cost of theatre receipts and other	2,394	2,492
	<hr/>	<hr/>
Total operating expenses	8,366	9,174
	<hr/>	<hr/>
Gross profit from operations	2,735	2,956
General and administrative expenses	(3,081)	(3,605)
Interest income	32	37
Interest expense	(785)	(1,062)
Debt conversion cost	-	(1,475)
Other income	4	-
	<hr/>	<hr/>
Loss from operations before income taxes and income from joint venture	(1,095)	(3,149)
(Provision) benefit for income taxes	(51)	655
Income from joint venture	119	92
	<hr/>	<hr/>
Net Loss	\$ (1,027)	\$ (2,402)
	<hr/>	<hr/>
Loss per share - basic and diluted	\$ (0.45)	\$ (1.65)
	<hr/>	<hr/>
Weighted average common shares outstanding - basic and diluted	2,307	1,460
	<hr/>	<hr/>
Cash dividends per share:		
Common Stock	\$ -	\$ -
Class B Stock	\$ -	\$ -

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

In thousands	THREE MONTHS ENDED MARCH 31	
	2008	2007
<hr/>		
Cash flows from operating activities		
Net loss	\$ (1,027)	\$ (2,402)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,873	2,307
Income from joint venture	(119)	(92)
Deferred income taxes	-	(655)
Exchange of 8 1/4% Notes for Common Stock	-	1,345
Changes in operating assets and liabilities:		
Receivables	(339)	1,339
Inventories	95	133
Prepays and other assets	34	(182)
Accounts payable and accruals	(544)	40
Deferred credits, deposits and other	64	(37)
	37	1,796
Cash flows from investing activities		
Equipment manufactured for rental	(933)	(1,443)
Purchases of property, plant and equipment	(936)	(194)
Proceeds from joint venture, net	250	75
	(1,619)	(1,562)
Cash flows from financing activities		
Proceeds from long-term debt	635	-
Payments of long-term debt	(921)	(753)
	(286)	(753)
Net decrease in cash and cash equivalents	(1,868)	(519)
Cash and cash equivalents at beginning of year	6,591	5,765
Cash and cash equivalents at end of period	\$ 4,723	\$ 5,246
<hr/>		
Interest paid	\$ 1,021	\$ 1,421
Income taxes paid	5	5
Supplemental disclosures of non-cash financing activities:		
Exchange of 8 1/4% Notes for Common Stock	-	7,829

TRANS-LUX CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2008  
(unaudited)

Note 1 - Basis of Presentation

Financial information included herein is unaudited, however, such information reflects all adjustments (of a normal and recurring nature), which are, in the opinion of management, necessary for the fair presentation of the condensed consolidated financial statements for the interim periods. The results for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and therefore do not include all information and footnote disclosures required under accounting principles generally accepted in the United States of America. It is suggested that the March 31, 2008 condensed consolidated financial statements 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, 2007. The condensed consolidated balance sheet at December 31, 2007 is derived from the December 31, 2007 audited financial statements.

The Company has incurred losses for the three months ended March 31, 2008 and 2007 of \$1,027,000 and \$2,402,000, respectively. The March 31, 2007 net loss included a non-cash, non-tax deductible charge for the exchange of debt for Common Stock of \$1.5 million relating to the exchange offer (see Note 3). The Company has implemented several initiatives to continue to improve operational results and cash flows over future periods. The Company's engineering staff continues to work on areas to improve manufacturing efficiencies; and improving the outdoor commercial products, particularly digital billboards and fuel price changers to include larger LED arrays, smaller LED pixel sizes for higher resolutions and additional features. The Company believes the outdoor commercial market is a growing industry, and we see increasing usage of digital signage in the outdoor commercial market. The Company also continues to explore ways to reduce costs and subsequent to the first quarter has relocated its Norwalk facility to lower operating costs in the future, although the second quarter of 2008 will include moving costs. The Company continues to take steps to reduce the cost to maintain the equipment on rental and maintenance as it continues to take disconnects. In addition, the Company is recording less interest expense as a result of the exchange offer in the first quarter of 2007 (see Note 3) and a reduction in interest rates of its variable rate debt. The Company has positive working capital of \$5.4 million as of March 31, 2008. As of March 31, 2008, the Company has fully drawn its \$5.0 million revolving loan facility, which was amended subsequent to the first quarter to extend the maturity date to August 1, 2009. The Company's objective in regards to the Credit Agreement is to restructure the existing Credit Agreement or obtain additional funds from external sources through equity or additional debt financing. The Company is in discussions with its senior lender to restructure the Credit Agreement. While management believes it will be successful, there can be no assurance that management will be successful in achieving any of the above objectives. Management further believes that its current cash resources

## Edgar Filing: TRANS LUX CORP - Form 10-Q

and cash provided by operations will be sufficient to fund its operations and its

4

current obligations through March 31, 2009.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") that defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands the disclosures about fair value measurement. In February 2008, the FASB amended SFAS 157 and issued FSP No. 157-2 ("FSP 157-2"). FSP 157-2 excludes fair value lease calculations pursuant to SFAS 13, as amended, from SFAS 157, but does not exclude assets and liabilities acquired pursuant to SFAS 141(R). FSP 157-2 defers the effective date of SFAS 157 for non-financial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis by one year. The adoption of SFAS 157 and the related FSPs did not have a material impact on the financial condition or results of operations of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that chose different measurement attributes for similar assets and liabilities. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have a material impact on the financial condition or results of operations of the Company.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"), which replaces FASB Statement No. 141. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the impact, if any, that the implementation of SFAS 141R will have on our results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated.

Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. We have not yet determined the impact, if any, that the implementation of SFAS 160 will have on our results of operations or financial condition.

#### Note 2 - Inventories

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

In thousands	March 31 2008	December 31 2007
Raw materials	\$4,546	\$4,743
Work-in-progress	1,309	1,351
Finished goods	903	759
	-----	-----
	\$6,758	\$6,853
	-----	-----

#### Note 3 - Long-Term Debt

On March 15, 2007, the Company completed an offer to exchange 133 shares of its Common Stock, \$1 par value per share, for each \$1,000 principal amount of its 8 1/4% Limited convertible senior subordinated notes due 2012 (the "8 1/4% Notes"). The offer was for up to \$9.0 million principal amount, or approximately 50% of the \$18.0 million principal amount outstanding of the 8 1/4% Notes. A total of \$7.8 million principal amount of the 8 1/4% Notes were exchanged, leaving \$10.1 million principal amount of the 8 1/4% Notes outstanding. A total of 1,041,257 shares of Common Stock were issued in the exchange. In accordance with FASB No. 84, "Induced Conversions of Convertible Debt," the Company recorded a non-cash, non-tax deductible charge for the exchange of debt for Common Stock and additional amortization of prepaid financing costs aggregating \$1.5 million in debt conversion cost as a result of the exchange offer.

The Company has a bank Credit Agreement, which provides for a term loan of \$10.0 million, a non-revolving line of credit of up to \$6.2 million to finance purchases and/or redemptions of one-half of the 7 1/2% Notes, and a revolving loan of up to \$5.0 million at variable interest rates ranging from LIBOR plus 2.25% to Prime (ranging from 5.25% to 5.39% at March 31, 2008). The Credit Agreement was amended subsequent to the first quarter to extend the maturity to August 1, 2009. Effective December 31, 2006, \$6.1 million of the non-revolving line of credit was converted into a four-year. At March 31, 2008, the entire revolving loan facility had been drawn. The Credit Agreement requires an annual facility fee on the unused commitment of 0.25%, and requires compliance with certain financial covenants, which include a fixed charge coverage ratio of 1.1 to 1.0, a loan-to-value ratio of not more than 50%, a cap on capital expenditures, a leverage ratio and maintaining accounts with an average monthly compensating balance of not less than \$750,000. As of March 31, 2008, the



## Edgar Filing: TRANS LUX CORP - Form 10-Q

Company was in compliance with the forgoing financial covenants, but the Company was not in compliance with maintaining a tangible net worth of not less than \$23.5 million, which its senior lender waived subsequent to the end of the quarter. In addition, the tangible

6

net worth covenant was modified to \$21.0 million as of June 30, 2008. The amounts outstanding under the Credit Agreement are collateralized by all of the Display division assets.

### Note 4 - Reporting Comprehensive Loss

Total comprehensive loss for the three months ended March 31, 2008 and 2007 is as follows:

In thousands	Three months ended March 31	
	2008	2007
Net loss, as reported	\$(1,027)	\$(2,402)
Other comprehensive income (loss):		
Unrealized foreign currency translation (loss) gain	(111)	27
Unrealized holding (loss) gain on available-for-sale securities	(4)	4
Income tax benefit (expense) related to items of other comprehensive income (loss)	1	(2)
	(114)	29
Total other comprehensive income (loss), net of tax		
Comprehensive loss	\$(1,141)	\$(2,373)

### Note 5 - Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$250,000 adjustment for interest and penalties in connection with uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings. The Company's policy is to classify interest and penalties related to uncertain tax positions in income tax expense.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and local jurisdictions and Canadian federal and provincial income tax. Currently, no federal or state or provincial income tax returns are under examination. The tax years 2004 through 2007 remain open to examination by the major taxing jurisdictions and the 2003 tax year remains open to examination by some state and local taxing jurisdictions to which the Company is subject.

A valuation allowance has been established for the amount of deferred tax assets related to Federal and state net operating loss carryforwards, which management estimates will more likely than not expire unused.

Estimates of the annual effective tax rate benefit at the end of interim periods are, of necessity, based on evaluations of possible future events and

## Edgar Filing: TRANS LUX CORP - Form 10-Q

transactions and may be subject to subsequent revision.

7

### Note 6 - Pension Plan

As of December 31, 2003, the benefit service under the pension plan had been frozen and, accordingly, there is no service cost for the periods ended March 31, 2008 and 2007.

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

In thousands	Three months ended March 31	
	2008	2007
Interest cost	\$ 160	\$ 160
Expected return on plan assets	(158)	(168)
Amortization of prior service cost	4	4
Amortization of net actuarial loss	66	71
Net periodic pension cost	\$ 72	\$ 67

As of March 31, 2008, the Company has recorded a current and long-term pension liability of \$0.2 million and \$3.1 million, respectively. The minimum required contribution for 2008 is expected to be \$0.2 million.

### Note 7 - Stock Option Plans

The Company did not issue any stock options during the three months ended March 31, 2008 and 2007. The unrecognized compensation costs related to unvested stock options granted under the Company's stock option plans was nominal.

Expected volatility is based on historical volatility of the Company's stock and the expected life of options is based on historical data with respect to exercise periods.

The following summarizes the activity of the Company's stock options for the three months ended March 31, 2008:

	Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value (\$)
Outstanding at beginning of year	65,000	6.08		
Granted	-	-		
Exercised	-	-		
Terminated	(1,500)	5.40		
Outstanding at end of period	63,500	6.09	3.3	===

## Edgar Filing: TRANS LUX CORP - Form 10-Q

Vested and expected to vest at end of period	61,000 =====	6.12	3.2 ===	52,900 =====
Exercisable at end of period	61,000	6.12	3.2	52,900

---

8

### Note 8 - Loss Per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. The Company's diluted loss per common share is calculated by adjusting net loss for the after-tax interest expense on convertible debt and dividing that amount by the weighted average number of common shares outstanding, adjusted for shares that would be assumed outstanding after convertible debt conversion and stock options vested under the treasury stock method. At March 31, 2008, there were no outstanding convertible debt. At March 31, 2008 and 2007, outstanding stock options to purchase 63,500 and 66,300 shares, respectively, of Common Stock were excluded from the calculation of diluted loss per share because their impact would have been anti-dilutive.

### Note 9 - Legal Proceedings and Claims

The Company is subject to legal proceedings and claims, which arise in the ordinary course of its business. The Company is not a party to any pending legal proceedings and claims that it believes will have a material adverse effect on the consolidated financial position or results of operations of the Company.

### Note 10 - Business Segment Data

The Company evaluates segment performance and allocates resources based upon operating income. The Company's operations are managed in three reportable business segments. The Display Division comprises two operating segments, Indoor display and Outdoor display. Both design, produce, lease, sell and service large-scale, multi-color, real-time electronic information displays. Both operating segments are conducted on a global basis, primarily through operations in the U.S. The Company also has operations in Canada. The Indoor display and Outdoor display segments are differentiated primarily by the customers they serve. The Entertainment/real estate segment owns a chain of motion picture theatres in the western Mountain States and income-producing real estate properties. Segment operating income is shown after operating expenses and sales, general and administrative expenses directly associated with the segment. The Entertainment/real estate segment includes the operating results of the theatre joint venture, MetroLux Theatres. Corporate general and administrative items relate to costs that are not directly identifiable with a segment. There are no intersegment sales. Of the total goodwill of \$1.0 million, \$0.9 million relates to the Outdoor display segment and \$0.1 million relates to the Indoor display segment.

Foreign revenues represent less than 10% of the Company's revenues and therefore are not separately disclosed. The foreign operation does not manufacture their own equipment; the domestic operation provides the equipment that the foreign operation leases or sells. The foreign operation operates similarly to the domestic operation and has similar profit margins.

Edgar Filing: TRANS LUX CORP - Form 10-Q

9

Information about the Company's operations in its three business segments for the three months ended March 31, 2008 and 2007 is as follows:

In thousands	Three months ended March 31	
	2008	2007
-----		
Revenues:		
Indoor display	\$ 2,708	\$ 2,518
Outdoor display	5,205	6,077
Entertainment/real estate	3,188	3,535
	-----	-----
Total revenues	11,101	12,130
	=====	=====
Operating income (loss)		
Indoor display	(139)	(486)
Outdoor display	313	291
Entertainment/real estate	701	918
	-----	-----
Total operating income	875	723
Other income	4	-
Corporate general and administrative expenses	(1,102)	(1,280)
Interest expense - net	(753)	(1,025)
Debt conversion cost	-	(1,475)
Income tax (provision) benefit	(51)	655
	-----	-----
Net loss	\$ (1,027)	\$ (2,402)
-----		

Note 11 - Joint Venture

The Company has a 50% ownership in a joint venture partnership, MetroLux Theatres ("MetroLux"), accounted for by the equity method.

The following results of operations summary information relates to MetroLux for the three months ended March 31, 2008 and 2007, and balance sheet summary information as of March 31, 2008 and December 31, 2007:

In thousands	Three months ended March 31	
	2008	2007
-----		
Revenues	\$1,337	\$1,293
Gross profit	251	205
Net income	238	184
Company's share of partnership net income	119	92
-----		

In thousands	March 31	December 31
	2008	2007
-----		

## Edgar Filing: TRANS LUX CORP - Form 10-Q

Current assets	\$ 567	\$ 956
Noncurrent assets	1,504	1,573
	-----	-----
Total assets	2,071	2,529
	=====	=====
Current liabilities	1,010	1,086
Noncurrent liabilities	522	641
	-----	-----
Total liabilities	1,532	1,727
	=====	=====
Company's equity in partnership net assets	\$ 284	\$ 417
-----		

The Company's equity in partnership net assets is reflected in other assets in the Condensed Consolidated Balance Sheets. The Company has guaranteed \$0.5 million (75%) of a \$0.7 million business loan to finance theatre equipment held by its joint venture, MetroLux, until May 2011, and,

10

accordingly has recognized a liability for \$30,000 at March 31, 2008. The unrelated 50% partner of MetroLux also guaranteed \$0.5million (75%) of the \$0.7 million business loan. The assets of MetroLux collateralize this business loan.

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

#### Overview

Trans-Lux is a full service provider of integrated multimedia systems for today's communications environments. The essential elements of these systems are the real-time, programmable electronic information displays we manufacture, distribute and service. Designed to meet the evolving communications needs of both the indoor and outdoor markets, these displays are used primarily in applications for the financial, banking, gaming, corporate, transportation, entertainment and sports industries. In addition to its display business, the Company owns and operates a chain of motion picture theatres in the western Mountain States. The Company operates in three reportable segments: Indoor display, Outdoor display and Entertainment/real estate.

The Indoor display segment includes worldwide revenues and related expenses from the rental, maintenance and sale of indoor displays. This segment includes the financial, government/private and gaming markets. The Outdoor display segment includes worldwide revenues and related expenses from the rental, maintenance and sale of outdoor displays. Included in this segment are catalog sports, retail, digital billboards and commercial markets. The Entertainment/real estate segment includes the operations of the motion picture theatres in the western Mountain States and income-producing real estate properties.

#### Results of Operations

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Total revenues for the three months ended March 31, 2008 decreased \$1.0 million or 8.5% to \$11.1 million from \$12.1 million for the three months ended March 31, 2007, primarily due to decreases in Outdoor display revenues and Entertainment/real estate revenues, offset by increases in Indoor display revenues.

## Edgar Filing: TRANS LUX CORP - Form 10-Q

Indoor display revenues increased \$190,000 or 7.5%. Of this increase, Indoor display equipment sales increased \$394,000 or 67.0%, primarily due to an increase in sales from the financial services and gaming markets. Indoor display equipment rentals and maintenance revenues decreased \$204,000 or 10.6%, primarily due to disconnects and non-renewals of equipment on rental on existing contracts in the financial services market. 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. The decrease in indoor display equipment rentals and maintenance revenues has lessened over last year, which indicates that the market conditions appear to be slowly improving, although the Company does continue to take disconnects and non-

11

renewal of existing equipment on rental and maintenance; however the Company also enters into new lease contracts.

Outdoor display revenues decreased \$872,000 or 14.3%. Of this decrease, Outdoor display equipment sales decreased \$695,000 or 14.2%, primarily in the outdoor commercial markets and catalog sports. Outdoor display equipment rentals and maintenance revenues decreased \$177,000 or 14.9%, primarily due to the continued expected revenue decline in the older Outdoor display equipment rental and maintenance bases acquired in the early 1990s.

Entertainment/real estate revenues decreased \$347,000 or 9.8%, primarily due to a decrease in box office revenues due to a lack of blockbuster films.

Total operating income for the three months ended March 31, 2008 increased \$152,000 or 21.0% to \$875,000 from \$723,000 for the three months ended March 31, 2007, principally due to decreases in the allowance for uncollectable accounts and general and administrative expenses, such as payroll and benefits, offset by the decline in revenues.

Indoor display operating income increased \$347,000 to a loss of \$139,000 in 2008 compared to a loss of \$486,000 in 2007, primarily as a result of a decrease in general and administrative expenses. The cost of Indoor displays represented 78.3% of related revenues in 2008 compared to 77.3% in 2007. The cost of Indoor displays as a percentage of related revenues increased primarily due to the decrease in revenues from Indoor display equipment rentals and maintenance and a \$27,000 increase in field service costs to maintain the equipment, offset by a \$122,000 decrease in depreciation expense. The Company continually addresses the cost of field service to keep it in line with revenues from equipment rentals and maintenance. Cost of Indoor display equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Indoor display cost of equipment sales increased \$268,000, primarily due to the increase in revenues. Indoor display general and administrative expenses decreased \$331,000 or 31.3%, primarily due to a reduction in selling payroll and benefits and related expenses and a \$157,000 decrease in the allowance for uncollectable accounts.

Outdoor display operating income increased \$22,000 or 7.6%, primarily as a result of a decrease in the Outdoor display cost of equipment rentals and maintenance. The cost of Outdoor displays represented 74.0% of related revenues in 2008 compared to 77.9% in 2007. Outdoor display cost of equipment sales decreased \$589,000 or 15.8%, principally due to the decrease in volume. Outdoor display cost of equipment rentals and maintenance decreased \$295,000 or 29.4%, primarily due to a \$148,000 decrease in field service costs to maintain the equipment and a \$146,000 decrease in depreciation expense. Outdoor display general and administrative expenses remained level. Cost of Outdoor display

## Edgar Filing: TRANS LUX CORP - Form 10-Q

equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation.

Entertainment/real estate operating income decreased \$217,000 or 23.6%, primarily due to the decreases in box office revenues due to a lack of blockbuster films. Cost of Entertainment/real estate, which includes film rental costs, concession costs, operating expenses and depreciation expense, decreased \$98,000 or 3.9%, primarily due to the decreases in revenues. The cost of

12

Entertainment/real estate represented 75.1% of related revenues in 2008 compared to 70.5% in 2007. This increase is due to an increase in certain operating expenses, such as credit card fees and payroll costs. Entertainment/real estate general and administrative expenses remained level.

Corporate general and administrative expenses decreased \$178,000 or 13.9%, primarily due to a decrease in benefits, such as medical costs. The Company continues to monitor and reduce certain overhead costs.

Net interest expense decreased \$272,000 due lower interest rates of the variable rate debt and a reduction in total debt. The debt conversion cost of \$1.5 million relates to the one-time, non-cash, non-tax deductible charge for the exchange of debt for Common Stock as a result of the exchange offer that was completed March 14, 2007, see Note 3. The income from joint venture relates to the operations of the theatre joint venture, MetroLux Theatres, in Loveland, Colorado, which is included in the Entertainment/real estate segment.

The effective tax rate for the three months ended March 31, 2008 and 2007 was 5.2% and 21.4%, respectively. The 2008 rate was affected by the \$0.4 million valuation allowance on its deferred tax assets as a result of reporting a pre-tax loss in recent years. The 2007 rate was affected by the \$1.5 million one-time, non-cash, non-tax deductible charge relating to exchange of debt for Common Stock, see Note 3. The Company adopted the provisions of FIN 48 on January 1, 2007, see Note 5.

### Liquidity and Capital Resources

On March 15, 2007, the Company completed an offer to exchange 133 shares of its Common Stock, \$1 par value per share, for each \$1,000 principal amount of its 8 1/4% Limited Convertible Senior Subordinated Notes due 2012 (the "8 1/4% Notes"). The offer was for up to \$9.0 million principal amount, or approximately 50% of the \$18.0 million principal amount outstanding of the 8 1/4% Notes. A total of \$7.8 million principal amount of the 8 1/4% Notes were exchanged, leaving \$10.1 million principal amount of the 8 1/4% Notes outstanding. A total of 1,041,257 shares of Common Stock were issued in the exchange. In accordance with FASB No. 84, "Induced Conversions of Convertible Debt," the Company recorded a non-cash, non-tax deductible charge for the exchange of debt for Common Stock and additional amortization of prepaid financing costs aggregating \$1.5 million in debt conversion cost as a result of the exchange offer.

During the three months ended March 31, 2008, long-term debt, including current portion, decreased \$0.3 million, due to \$0.9 million of regularly scheduled payments of long-term debt offset \$0.6 million of borrowing on the DreamCatcher Cinema construction loan.

The Company has a bank Credit Agreement, which provides for a term loan of \$10.0 million, a non-revolving line of credit of up to \$6.2 million to finance

## Edgar Filing: TRANS LUX CORP - Form 10-Q

purchases and/or redemptions of one-half of the 7 1/2% Notes, and a revolving loan of up to \$5.0 million at variable interest rates ranging from LIBOR plus 2.25% to Prime (ranging from 5.25% to 5.39% at March 31, 2008). The Credit Agreement was amended subsequent to the first quarter to extend the maturity to August 1, 2009. Effective December 31, 2006, \$6.1 million of the non-revolving line of credit was converted into a four-year. At March 31, 2008, the entire revolving loan facility had been drawn. The Credit

13

Agreement requires an annual facility fee on the unused commitment of 0.25%, and requires compliance with certain financial covenants, which include a fixed charge coverage ratio of 1.1 to 1.0, a loan-to-value ratio of not more than 50%, a cap on capital expenditures, a leverage ratio and maintaining accounts with an average monthly compensating balance of not less than \$750,000. As of March 31, 2008, the Company was in compliance with the forgoing financial covenants, but the Company was not in compliance with maintaining a tangible net worth of not less than \$23.5 million, which its senior lender waived subsequent to the end of the quarter. In addition, the tangible net worth covenant was modified to \$21.0 million as of June 30, 2008. The amounts outstanding under the Credit Agreement are collateralized by all of the Display division assets.

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

The following table summarizes the Company's fixed cash obligations as of March 31, 2008 for the remainder of 2008 and the next four years:

In thousands	Remainder of 2008	2009	2010	2011	2012
Long-term debt, including interest	\$7,400	\$15,765	\$3,147	\$3,098	\$15,482
Employment and consulting agreement obligations	1,175	989	427	303	198
Operating lease payments	567	529	509	455	304
<b>Total</b>	<b>\$9,142</b>	<b>\$17,283</b>	<b>\$4,083</b>	<b>\$3,856</b>	<b>\$15,984</b>

Cash and cash equivalents decreased \$1.9 million for the three months ended March 31, 2008 compared to a decrease of \$0.5 million for the three months ended March 31, 2007. The decrease in 2008 is primarily attributable to the investment in equipment for rental of \$0.9 million, the investment in property, plant and equipment of \$0.9 million, which includes the expansion of the DreamCatcher Cinema, and \$0.9 million of scheduled payments of long-term debt, offset by \$0.6 million of proceeds from long-term debt and proceeds from the Company's joint venture of \$0.3 million, with cash provided by and used in operations offsetting each other. The decrease in 2007 is primarily attributable to the investment in equipment for rental of \$1.4 million and \$0.8 million of scheduled payments of long-term debt, offset by \$1.8 million of cash provided by operating activities.



## Edgar Filing: TRANS LUX CORP - Form 10-Q

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

The Company may, from time to time, provide estimates as to future performance. These forward-looking statements will be estimates, and may or may not be realized by the Company. The Company undertakes no duty to update such forward-looking statements. Many factors could cause actual results to differ from these forward-looking statements, including loss of market share through competition, introduction of competing products by others, pressure on prices from competition or purchasers of the Company's products, interest rate and foreign exchange fluctuations, terrorist acts and war.

14

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk on its long-term debt. The Company manages its exposure to changes in interest rates by the use of variable and fixed interest rate debt. In addition the Company is exposed to foreign currency exchange rate risk mainly as a result of investment in its Canadian subsidiary. The Company may, from time to time, enter into derivative contracts to manage its interest risk. The Company does not enter into derivatives for trading or speculative purposes. At March 31, 2008, the Company did not hold any derivative financial instruments.

A one percentage point change in interest rates would result in an annual interest expense fluctuation of approximately \$284,000. A 10% change in the Canadian dollar relative to the U.S. dollar would result in a currency exchange expense fluctuation of approximately \$84,000, based on dealer quotes, considering current exchange rates.

### Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, we have carried out an evaluation, under the supervision and with the participation of our management, including our Co-Chief Executive Officers and Chief Financial Officer (our principal executive officers and principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Our Co-Chief Executive Officers and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management (including our Co-Chief Executive Officers and Chief Financial Officer) to allow timely decisions regarding required disclosures. Based on such evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded these disclosure controls are effective as of March 31, 2008.

Changes in Internal Control over Financial Reporting. There has been no change in the Company's internal control over financial reporting, that occurred in the first fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

15

Part II - Other Information

-----

## Edgar Filing: TRANS LUX CORP - Form 10-Q

### 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 following risk factors, in addition to those identified in our Annual Report on Form 10-K for the year ended December 31, 2007.

The Company has incurred losses for the three months ended March 31, 2008 and 2007 of \$1,027,000 and \$2,402,000, respectively. The March 31, 2007 net loss included a non-cash, non-tax deductible charge for the exchange of debt for Common Stock of \$1.5 million relating to the exchange offer (see Note 3). The Company has positive working capital of \$5.4 million as of March 31, 2008. As of March 31, 2008, the Company has fully drawn its \$5.0 million revolving loan facility, which was amended subsequent to the first quarter to extend the maturity date to August 1, 2009. The Company's objective in regards to the Credit Agreement is to restructure the existing Credit Agreement or obtain additional funds from external sources through equity or additional debt financing. The Company is in discussions with its senior lender to restructure the Credit Agreement. While management believes it will be successful, there can be no assurance that management will be successful in achieving any of the above objectives. Management further believes that its current cash resources and cash provided by operations will be sufficient to fund its operations and its current obligations through March 31, 2009.

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

None.

### Item 3. Defaults upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders

None.

### Item 5. Other Information

None.

16

### Item 6. Exhibits

- 10.1 Employment Agreement with Karl Hirschauer dated as of April 1, 2008, filed herewith.
- 31.1 Certification of Michael R. Mulcahy, President and Co-Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Thomas Brandt, Executive Vice President and Co-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.

Edgar Filing: TRANS LUX CORP - Form 10-Q

- 31.3 Certification of Angela D. Toppi, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Michael R. Mulcahy, President and Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Thomas Brandt, Executive Vice President and Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of Angela D. Toppi, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

17

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)

Date: May 20, 2008

by /s/ Angela D. Toppi

-----

Angela D. Toppi  
Executive Vice President and  
Chief Financial Officer

18