PARKER HANNIFIN CORP
Form 424B2
September 17, 2007
Table of Contents

Filed Pursuant to Rule 424(b)(2)

Registration No. 333-143226

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Medium Term Notes, Series A	$775,000,000	$775,000,000	$23,792.50

Table of Contents

PROSPECTUS SUPPLEMENT

(To Prospectus May 24, 2007)

$775,000,000

PARKER-HANNIFIN CORPORATION

Medium-Term Notes, Series A

Due Nine Months or More from Date of Issue

We may offer from time to time our medium-term notes, series A. Each time we issue notes, we will attach a pricing supplement to this prospectus supplement. We will provide the specific terms of any notes offered in a pricing supplement, which terms will include:

Maturity. The notes will mature nine months or more from the date they are issued.

Interest Rate. The interest rate on each note will be either a fixed rate, which may be zero in the case of certain original issue discount notes, an amortizing fixed rate or a floating rate. Floating rate interest may be based on one or more of the following rates:

- CD Rate
- Commercial Paper Rate
- Federal Funds Rate
- LIBOR
- Prime Rate
- Treasury Rate
- CMT Rate
- Any other rate specified in the applicable pricing supplement.

Interest Payment Date. Interest on each fixed rate note, amortizing fixed rate note or floating rate note will be payable on each interest payment date set forth in this prospectus supplement and in the applicable pricing supplement.

Redemption. Redemption provisions applicable to the notes will be specified in the applicable pricing supplement.

Currency. The notes may be denominated in U.S. dollars or in a foreign or composite currency.

Denomination. The notes will be issued in fully registered form in denominations of $1,000, increasing in integral multiples of $1,000 or other specified denominations for foreign or composite currencies.

Each note will be in book entry form through The Depository Trust Company or certificated form.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We may offer the notes on a continuous basis through the agents listed below, who have agreed to use reasonable efforts to sell the notes. We may also sell the notes to the agents as principal for resale at terms agreed to by us. If we sell all of the notes, we expect to receive proceeds of between $774,031,250 and $769,187,500 after paying the agents discounts and commissions of between $968,750 and $5,812,500. However, the agents discounts and commissions may exceed these amounts with respect to sales of notes with stated maturities of 30 years or more.

MORGAN STANLEY
CITI
GOLDMAN, SACHS & CO.
ABN AMRO INCORPORATED
BANC OF AMERICA SECURITIES LLC
KEYBANC CAPITAL MARKETS INC.

September 17, 2007

Table of Contents

TABLE OF CONTENTS

	Page
Prospectus Supplement	
About This Prospectus Supplement; Pricing Supplements	S-1
Important Currency Exchange Information	S-1
Description of Notes	S-1
Foreign Currency Risks	S-19
Material U.S. Federal Income Tax Considerations	S-20
Plan of Distribution	S-30
Validity of the Notes	S-31
Prospectus	
About This Prospectus	1
Parker-Hannifin Corporation	1
Risk Factors	2
Disclosure about Forward-Looking Statements	2
Where You Can Find More Information	2
Information We Incorporate by Reference	3
Use of Proceeds	4
Ratio of Earnings to Fixed Charges	4
Description of Debt Securities	4
Description of Capital Stock	18
Description of Depositary Shares	24
Description of Warrants	26
Description of Stock Purchase Contracts and Stock Purchase Units	27
Plan of Distribution	28
Legal Matters	30
Experts	30

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement and the date of the accompanying prospectus, regardless of the time of delivery of this prospectus supplement or any sale of the medium-term notes, series A.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT; PRICING SUPPLEMENTS

We may use this prospectus supplement, together with the accompanying prospectus and an attached pricing supplement, to offer our medium-term notes, series A, from time to time. The total initial offering price of notes that may be offered by this prospectus supplement is $775,000,000.

This prospectus supplement sets forth the terms of the medium-term notes, series A, that we may offer. It supplements the description of the debt securities contained in the accompanying prospectus. If any particular term of our medium-term notes, series A, described in this prospectus supplement is inconsistent with any general terms described in the accompanying prospectus, the particular term described in this prospectus supplement will control. Capitalized terms used but not defined in this prospectus supplement have the meanings set forth in the accompanying prospectus or the indenture under which the notes are issued. References in this prospectus supplement to notes are only to the medium-term notes, series A, we may issue under this prospectus supplement and not to any other notes we may issue under the accompanying prospectus.

Each time we issue notes, we will attach a pricing supplement to this prospectus supplement. The pricing supplement will contain the specific description of the notes being offered and the terms of the offering. The pricing supplement may also add, update or change information in this prospectus supplement or the accompanying prospectus. If any information in the pricing supplement is inconsistent with this prospectus supplement, the information in the pricing supplement will control.

You should read and consider all information contained in this prospectus supplement and the accompanying prospectus and pricing supplement in making your investment decision. You should also read and consider the information in the documents we have referred you to in Where You Can Find More Information on page 2 of the accompanying prospectus.

IMPORTANT CURRENCY EXCHANGE INFORMATION

Purchasers are required to pay for the notes in U.S. dollars, and payments of principal, premium, if any, and interest on the notes will also be made in U.S. dollars, unless the applicable pricing supplement provides that purchasers are instead required to pay for the notes in a specified currency, and/or that payments of principal, premium, if any, and interest on the notes will be made in a specified currency. Currently, there are limited facilities in the United States for the conversion of U.S. dollars into foreign or composite currencies and vice versa. In addition, most banks do not currently offer non-U.S. dollar denominated checking or savings account facilities in the United States. Accordingly, unless otherwise specified in a pricing supplement or unless alternative arrangements are made, payment of principal, premium, if any, and interest on notes in a specified currency other than U.S. dollars will be made to an account at a bank outside the United States. See Description of Notes and Foreign Currency Risks.

If the applicable pricing supplement provides for payments of principal of and interest on a non-U.S. dollar denominated note to be made in U.S. dollars or for payments of principal of and interest on a U.S. dollar denominated note to be made in a specified currency other than U.S. dollars, the conversion of the specified currency into U.S. dollars or U.S. dollars into the specified currency, as the case may be, will be handled by the exchange rate agent identified in the pricing supplement. Any agent may act, from time to time, as exchange rate agent. The costs of conversion will be borne by the holder of a note through deductions from the payments.

DESCRIPTION OF NOTES

The following description of the material terms of the notes offered by this prospectus supplement is in addition to, and if inconsistent replaces, the description and general terms of the notes set forth under Description of Debt Securities in the accompanying prospectus. The terms and conditions set forth in this section will apply to each note unless otherwise specified in the applicable pricing supplement and in that note.

Table of Contents

General

We will issue the notes under an Indenture, dated as of May 3, 1996, between us and Wells Fargo Bank, N.A. (as successor to National City Bank), as trustee. We may also issue other debt securities, in addition to the medium-term notes, series A, under the Indenture. The notes will rank equal to all of our other unsecured and unsubordinated indebtedness. The notes may be issued from time to time in an aggregate principal amount of up to $775,000,000 or the equivalent thereof in one or more foreign or composite currencies. The Indenture allows us to reopen a series of securities, including the notes, and issue additional securities of that series without the consent of the holders of the series.

For the purpose of this prospectus supplement:

- the principal amount of any original issue discount note (as defined below) means the issue price (as defined below) of that note; and
- the principal amount of any note issued in a foreign or composite currency means the U.S. dollar equivalent on the date of issue of the issue price of that note.

The notes will mature on any day nine months or more from the date of issue, as set forth in the applicable pricing supplement. Except as may be provided in the applicable pricing supplement, the notes will be issued only in fully registered form in denominations of $1,000 each.

We may, from time to time, without the consent of the then existing holders of a series of notes, reopen the series of notes and issue additional notes with the same term (except the issue price and issue date, but including maturity and interest payment terms) as notes issued on an earlier date. After the additional notes are issued, they will be fungible with the previously issued notes to the extent set forth in the applicable pricing supplement.

The notes will be offered on a continuing basis, and each note will be issued initially as either a global note or a definitive note. Except as set forth in the accompanying prospectus under Description of Debt Securities Global Securities, global notes will not be issuable as definitive notes. The laws of some states may require that certain purchasers of securities take physical delivery of the securities in definitive form. These limits and laws may impair your ability to own, transfer or pledge beneficial interests in global securities. See Book-Entry System below.

We will maintain an agency in New York, New York for the presentation of notes for payment of principal and interest, registration of notes for transfer and exchange of the notes. However, global notes will be exchangeable only in the manner and to the extent set forth in the accompanying prospectus under Description of Debt Securities Global Securities. On the date of this prospectus supplement, the paying agent for the payment, transfer and exchange of the notes is Wells Fargo Bank, N.A. acting through its corporate trust office at 625 Marquette Avenue; N9311-110, Minneapolis, MN 55479.

The applicable pricing supplement will specify:

- the issue price of each note to be sold pursuant to that pricing supplement (unless the note is to be sold at 100% of its principal amount);
- the interest rate or interest rate formula;
- maturity;
- currency;

principal amount; and

any other terms on which each note will be issued.

Table of Contents

Certain Definitions

Unless otherwise provided in the applicable pricing supplement, the following terms will have the meanings set forth below:

Authorized denominations means:

- with respect to notes denominated in U.S. dollars, U.S. $1,000 or integral multiples of U.S. $1,000 above that; and
- with respect to notes denominated in foreign or composite currencies, the equivalent of $1,000 (rounded to an integral multiple of 1,000 units of the specified currency), or integral multiples of 1,000 units above that of the specified currency, as determined by reference to the market exchange rate (as defined below) for the specific currency on the business day (as defined below) immediately preceding the date of issuance.

Business day means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or obligated by law or executive order to close in New York City, and

- with respect to LIBOR notes, is also a London banking day (as defined below);
- with respect to notes denominated in a specified currency other than U.S. dollars, euros or Australian dollars, in the principal financial center of the country of the specified currency;
- with respect to notes denominated in euros, any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor system is open for business; and
- with respect to notes denominated in Australian dollars, in Sydney.

Depositary means The Depository Trust Company.

Index currency means the currency specified in the applicable pricing supplement as the currency for which LIBOR shall be calculated. If no currency is specified in the applicable pricing supplement, the index currency will be U.S. dollars.

Interest payment date, with respect to any note, means the date on which, under the terms of the note, regularly scheduled interest is payable.

Issue price means the first price at which each note is sold to the public pursuant to a pricing supplement.

London banking day means any day on which dealings in deposits in the index currency are transacted in the London interbank market.

Market exchange rate means the noon dollar buying rate in New York City for cable transfers of a specified currency published by the Federal Reserve Bank of New York.

Original issue discount note means any note that provides for an amount less than the principal amount to be due and payable upon a declaration of acceleration of the maturity pursuant to the Indenture.

Record date, with respect to any interest payment date, means the date 15 calendar days prior to that interest payment date, whether or not that date is a business day.

Interest and Principal Payments

We will pay interest to the person in whose name the note is registered at the close of business on the applicable record date. However, we will pay the interest payable upon maturity, redemption or repayment,

Table of Contents

whether or not the date of maturity, redemption or repayment is an interest payment date, to the person to whom principal is payable.

We will pay the initial interest payment on a note on the first interest payment date falling after the date the note is issued. However, unless otherwise specified in the applicable pricing supplement, we will make payments of interest or, in the case of an amortizing note, principal and interest, on a note issued less than 15 calendar days before an interest payment date on the next succeeding interest payment date to the holder of record on the record date with respect to that succeeding interest payment date.

We will make U.S. dollar denominated payments of interest, other than interest payable at maturity or on the date of redemption or repayment if we redeem or repay a note before maturity, by check mailed to the address of the person entitled to the interest payment as shown on the note register. We will make U.S. dollar denominated payments of principal, premium, if any, and interest upon maturity, redemption or repayment in immediately available funds against presentation and surrender of the note. Notwithstanding the foregoing:

- the depositary, as holder of global notes, will be entitled to receive payments of interest by wire transfer of immediately available funds; and

- a holder of U.S. $10,000,000 (or the equivalent) or more in aggregate principal amount of definitive notes having the same interest payment date will be entitled to receive payments of interest by wire transfer of immediately available funds upon written request to the paying agent, provided the request is received not later than 15 calendar days prior to the applicable interest payment date.

Unless otherwise specified in the applicable pricing supplement, a beneficial owner of global notes denominated in a specified currency electing to receive payments of principal or any premium or interest in a currency other than U.S. dollars must notify the participant through which its interest is held on or before the applicable record date, in the case of a payment of interest, and the 16th day prior to maturity, in the case of principal or premium, of a beneficial owner s election to receive all or a portion of the payment in a specified currency. The participant must notify the depositary of the election on or before the third business day after the applicable record date. The depositary will notify the paying agent of the election on or before the fifth business day after such record date. If complete instructions are received by the participant and forwarded by the participant to the depositary, and by the depositary to the paying agent, on or before those dates, the beneficial owner will receive payments in the specified currency by wire transfer of immediately available funds to an account maintained by the payee with a bank located outside the United States. Otherwise, the beneficial owner will receive payments in U.S. dollars.

Certain notes we may issue, including original issue discount notes, may be considered to be issued with original issue discount, which must be included in income for U.S. federal income tax purposes under a constant yield method. See Material U.S. Federal Income Tax Considerations Tax Consequences to Holders Original Issue Discount Notes below. Unless otherwise specified in the applicable pricing supplement, if the principal of any original issue discount note is declared to be due and payable immediately as described under Description of Debt Securities Events of Default in the accompanying prospectus, the amount of principal due and payable with respect to any original issue discount note will be limited to the aggregate principal amount of the note multiplied by the sum of its issue price (expressed as a percentage of the aggregate principal amount) plus the original issue discount amortized from the date of issue to the date of declaration. The amortization will be calculated using the interest method computed in accordance with generally accepted accounting principles in effect on the date of declaration. Special considerations applicable to any original issue discount notes will be set forth in the applicable pricing supplement.

Payment Currency

If the applicable pricing supplement provides for payments of interest and principal on a non-U.S. dollar denominated note to be made, at the option of the holder of the note, in U.S. dollars, we will cause conversion of

Table of Contents

the specified currency into U.S. dollars to be made. The exchange rate agent will determine the conversion ratio based on the highest bid quotation in New York City received by the exchange rate agent at approximately 11:00 a.m., New York City time, on the second business day preceding the applicable payment date. The exchange rate agent will determine the highest bid quotation by receiving bid quotations from three recognized foreign exchange dealers, one of which may be the exchange rate agent, for the purchase by the quoting dealer of the specified currency for U.S. dollars for settlement on each payment date in the aggregate amount of the specified currency payable to the holders of notes and at which the applicable dealer commits to execute a contract. If these bid quotations are not available, payments will be made in the specified currency. All currency exchange costs will be borne by the holders of notes through deductions from the payments made.

Except as set forth below, if the principal of, premium, if any, or interest on, any note is payable in a specified currency other than U.S. dollars and the specified currency:

- is not available to us for making payments due to the imposition of exchange controls or other circumstances beyond our control;
- is no longer used by the government of the country issuing the currency; or
- is no longer used for the settlement of transactions by public institutions within the international banking community,

then we will be entitled to satisfy our obligations to holders of the notes by making payments in U.S. dollars on the basis of the market exchange rate on the date of the payment or, if the market exchange rate is not available on that date, as of the most recent practicable date. Any payment made under these circumstances in U.S. dollars where the required payment is in a specified currency other than U.S. dollars will not constitute an event of default as described under Description of Debt Securities Events of Default in the accompanying prospectus.

All determinations referred to above made by us or our agent will be at our sole discretion and will, in the absence of manifest error, be conclusive for all purposes and binding on holders of notes.

Fixed Rate Notes

Each fixed rate note we issue will bear interest from the date of issuance at the annual rate stated on its face, except as described below under Extension of Maturity, until the principal of the note is paid or made available for payment. Unless otherwise specified in the applicable pricing supplement:

- interest on fixed rate notes will be computed on the basis of a 360-day year of twelve 30-day months;
- payments of interest on fixed rate notes other than amortizing notes will be made semiannually on January 1 and July 1 of each year and at maturity or upon any earlier redemption or repayment;
- payments of principal and interest on amortizing notes, which are securities on which payments of principal and interest are made in equal installments over the life of the security, will be made either quarterly on January 1, April 1, July 1 and October 1, or semiannually on January 1 and July 1, as set forth in the applicable pricing supplement, and at maturity or upon any earlier redemption or repayment; and
- payments with respect to amortizing notes will be applied first to interest due and payable and then to the reduction of the unpaid principal amount.

A table setting forth repayment information in respect of each amortizing note will be provided to the original purchaser and will be available, upon request, to subsequent holders.

If any interest payment date for any fixed rate note falls on a day that is not a business day, the interest payment will be made on the next succeeding business day, and no interest on the payment will accrue for the period from and after the interest payment date. If the maturity, or date of redemption or repayment, of any fixed

Table of Contents

rate note falls on a day that is not a business day, the payment of interest and principal (and premium, if any) will be made on the next succeeding business day, and no interest on the payment will accrue for the period from and after the maturity date, or date of redemption or repayment.

Interest payments for fixed rate notes will include accrued interest from and including the date of issue or from and including the last date in respect of which interest has been paid, as the case may be, to, but excluding, the interest payment date or the date of maturity or earlier redemption or repayment, as the case may be. We may change the interest rates we agree to pay, without notice, on any newly issued fixed rate notes, but any change on newly issued fixed rate notes will not affect any fixed rate notes previously issued or that we have agreed to issue.

Floating Rate Notes

Each floating rate note we issue will bear interest from the date of issuance until the principal is paid or made available for payment at a base rate determined by reference to an interest rate basis or formula, which may be adjusted by a spread and/or spread multiplier (each as defined below). The applicable pricing supplement will designate one or more of the following base rates, as applicable, to each floating rate note:

- the CD rate;
- the commercial paper rate;
- the federal funds rate;
- LIBOR;
- the prime rate;
- the treasury rate;
- the CMT rate; or
- another base rate or interest rate formula that is set forth in the pricing supplement and in the floating rate note.

The index maturity for any floating rate note is the period of maturity of the instrument or obligation from which the base rate is calculated and will be specified in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, the interest rate on each floating rate note will be calculated by reference to the specified base rate plus or minus the spread, if any, and/or multiplied by the spread multiplier, if any. The spread is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the base rate for the floating rate note. The spread multiplier is the percentage specified in the applicable pricing supplement to be applied to the base rate for the floating rate note.

As specified in the applicable pricing supplement, a floating rate note may also have either or both of the following:

- a maximum limit, or ceiling, on the rate of interest which may accrue during any interest period, which we refer to as maximum interest rate ; and

- a minimum limit, or floor, on the rate of interest which may accrue during any interest period, which we refer to as minimum interest rate.

In addition to any maximum interest rate that may be applicable to any floating rate note, the interest rate on a floating rate note will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, subject to certain exceptions, for any loan in an amount less than $250,000 is 16% per year and for any loan in the amount of $250,000 or more but less than $2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

Table of Contents

Interest Reset Dates. Unless otherwise specified in the applicable pricing supplement, the rate of interest on each floating rate note will be reset according to an interest reset period, which will be daily, weekly, monthly, quarterly, semiannually or annually. We refer to the first day of each interest reset period as an interest reset date. The applicable pricing supplement will specify the applicable interest reset period. Unless otherwise specified in the pricing supplement, the interest reset date will be:

- in the case of floating rate notes which reset daily, each business day;
- in the case of floating rate notes (other than treasury rate notes) which reset weekly, the Wednesday of each week; in the case of treasury rate notes which reset weekly, the Tuesday of each week, except as provided below;
- in the case of floating rate notes which reset monthly, the third Wednesday of each month;
- in the case of floating rate notes which reset quarterly, the third Wednesday of March, June, September and December;
- in the case of floating rate notes which reset semiannually, the third Wednesday of two months of each year, as specified in the applicable pricing supplement; and
- in the case of floating rate notes which reset annually, the third Wednesday of one month of each year, as specified in the applicable pricing supplement;

provided, that (a) the interest rate in effect from the date of issue to the first interest reset date with respect to a floating rate note will be the initial interest rate set forth in the applicable pricing supplement and (b) unless otherwise specified in the applicable pricing supplement, the interest rate in effect for the ten calendar days immediately prior to maturity, redemption or repayment will be the rule in effect on the tenth calendar day preceding the maturity, redemption or repayment date. If any interest reset date for any floating rate note is not a business day, the interest reset date will be postponed to the next succeeding business day, except that in the case of a LIBOR note, if such business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.

Interest Payment Dates. Except as provided below or as otherwise specified in the applicable pricing supplement, interest on floating rate notes will be payable on the following interest payment dates:

- in the case of floating rate notes with a daily, weekly or monthly interest reset date, on the third Wednesday of each month or on the third Wednesday of March, June, September and December, as specified in the applicable pricing supplement;
- in the case of floating rate notes with a quarterly interest reset date, on the third Wednesday of March, June, September and December;
- in the case of floating rate notes with a semiannual interest reset date, on the third Wednesday of the two months specified in the applicable pricing supplement; and
- in the case of floating rate notes with an annual interest reset date, on the third Wednesday of the month specified in the applicable pricing supplement.

If any interest payment date for any floating rate note falls on a day that is not a business day, the interest payment date will be postponed to the next succeeding business day with respect to such floating rate note, except that, in the case of a LIBOR note, if the next succeeding business day is in the next succeeding calendar month, the interest payment date will be the immediately preceding business day. If the maturity date or any earlier redemption or repayment date of a floating rate note would fall on a day that is not a business day, the payment of principal, premium, if any, and interest will be made on the next succeeding business day, and no interest on such payment will accrue for the period from and after such maturity, redemption or repayment date, as the case may be.

Table of Contents

Interest Determination Dates. As used below, the interest determination date pertaining to the interest reset date for the floating rate notes we may issue is as follows:

- for federal funds rate notes and prime rate notes, the business day preceding the relevant interest reset date;
- for CD rate notes, commercial paper rate notes and CMT rate notes, the second business day preceding the relevant interest reset date;
- for a LIBOR note, the second London banking day preceding the relevant interest reset date; and
- for a treasury rate note, the day of the week in which the relevant interest reset date falls on which treasury bills (as defined below) would normally be auctioned. Treasury bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, but that auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is held on the preceding Friday, that Friday will be the interest determination date pertaining to the interest reset date occurring in the next succeeding week. If an auction falls on a day that is an interest reset date, such interest reset date will be the next following business day.

Unless otherwise specified in the applicable pricing supplement, the calculation date, where applicable, pertaining to an interest determination date will be the earlier of:

- the tenth calendar day after that interest determination date, or, if such day is not a business day, the next succeeding business day; or
- the business day preceding the applicable interest payment date or maturity date, as the case may be.

Calculation of Interest. Unless otherwise specified in the applicable pricing supplement, interest payments for floating rate notes will be the amount of interest accrued from and including the date of issue or from and including the last date to which interest has been paid to, but excluding, the interest payment date or maturity date or date of redemption or repayment.

Accrued interest on floating rate notes will be calculated by multiplying the principal amount of the floating rate note by an accrued interest factor. The accrued interest factor will be computed by adding the interest factor calculated for each day in the period for which interest is being paid. Unless otherwise specified in the applicable pricing supplement, the interest factor for each day in the period is computed by dividing the interest rate applicable to that day:

- by 360, in the case of CD rate notes, commercial paper rate notes, federal funds rate notes, LIBOR notes and prime rate notes; or
- by the actual number of days in the year, in the case of treasury rate notes and CMT rate notes.

All percentages used in or resulting from any calculation of the rate of interest on a floating rate note will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% or .09876545 would be rounded to 9.87655% or .0987655 and 9.876544% or .09876544 would be rounded to 9.87654% or .0987654). All dollar amounts used in or resulting from the interest calculation on floating rate notes will be rounded to the nearest cent, with one-half cent rounded upward. The interest rate in effect on any interest reset date will be the applicable rate as reset on that date. The interest rate applicable to any other day is the interest rate from the immediately preceding interest reset date or, if none, the initial interest rate.

Unless otherwise stated in the applicable pricing supplement, the calculation agent with respect to any issue of floating rate notes will be Wells Fargo Bank, N.A. Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next interest reset date with respect to the relevant floating rate note.

Table of Contents

Interest rates will be determined by the calculation agent as follows:

CD Rate Notes. CD rate notes will bear interest at the interest rate, calculated with reference to the CD rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the CD rate notes and in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, CD rate means, the rate on any interest determination date for negotiable U.S. dollar certificates of deposit having the index maturity designated in the applicable pricing supplement as published by the Board of Governors of the Federal Reserve System in Statistical Release H.15(519), Selected Interest Rates, or any successor publication of the Board of Governors of the Federal Reserve System, which we refer to as H.15(519), under the heading CDs (Secondary Market).

If the CD rate cannot be determined as described above, then the following procedures will apply.

If that rate is not published by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date then the CD rate will be the rate on the interest determination date for negotiable U.S. dollar certificates of deposit of the index maturity designated in the applicable pricing supplement available through the world-wide web site of the Board of Governors of the Federal Reserve System at *http://www.federalreserve.gov/releases/h15/update,* or any successor site or publication of the Board of Governors of the Federal Reserve System, which we refer to as H.15 Daily Update, under the heading CDs (Secondary Market).

If that rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the CD rate on the interest determination date will be calculated by the calculation agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 a.m., New York City time, on the interest determination date for certificates of deposit in an amount that is representative for a single transaction at that time with a remaining maturity closest to the index maturity designated in the pricing supplement of three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in New York City selected by the calculation agent for negotiable U.S. dollar certificates of deposit of major U.S. money center banks.

If the dealers selected by the calculation agent are not quoting rates as set forth in the prior paragraph, the CD rate in effect for the applicable period will be the same as the CD rate for the immediately preceding interest reset period (or, if there was no such interest reset period, then the rate of interest payable will be the initial interest rate).

Commercial Paper Rate Notes. Commercial paper rate notes will bear interest at the interest rate, calculated with reference to the commercial paper rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the commercial paper rate notes and in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, commercial paper rate means, the money market yield (as defined below) of the rate on any interest determination date for commercial paper having the index maturity specified in the applicable pricing supplement, as published in H.15(519), under the heading Commercial Paper Nonfinancial.

If the commercial paper rate cannot be determined as described above, then the following procedures will apply.

If that rate is not published by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the commercial paper rate will be the money market yield of the rate on that interest determination date for commercial paper of the specified index maturity as published in the H.15 Daily Update or another recognized electronic source used for the purpose of displaying the applicable rate, under the heading Commercial Paper Nonfinancial.

Table of Contents

If the rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the commercial paper rate will be the money market yield of the arithmetic mean of the offered rates as of 11:00 a.m., New York City time, on the interest determination date of three leading dealers of commercial paper in New York City selected by the calculation agent for commercial paper of the specified index maturity, placed for an industrial issuer whose bond rating is AA, or the equivalent, from a nationally recognized statistical rating agency.

If the dealers selected by the calculation agent are not quoting offered rates as set forth in the prior paragraph, the commercial paper rate in effect for the applicable period will be the same as the commercial paper rate for the immediately preceding interest reset period (or, if there was no such interest rate period, then the rate of interest payable will be the initial interest rate).

The money market yield means a yield calculated in accordance with the following formula:

$$\text{money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and M refers to the actual number of days for which interest is being calculated.

Federal Funds Rate Notes. Federal funds rate notes will bear interest at the interest rate, calculated with reference to the federal funds rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the federal funds rate notes and in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, federal funds rate means, the rate on any interest determination date for U.S. dollar federal funds as published in H.15(519) under the heading Federal Funds (Effective), as that rate is displayed on Reuters Screen FEDFUNDS1. Reuters Screen means the display on Reuters Monitor Money Rate Services or any successor or replacement service, on the page or pages or any successor or replacement page or pages on that service.

If the federal funds rate cannot be determined as described above, then the following procedures will apply.

If that rate is no longer displayed on Reuters Screen FEDFUNDS1 by 3:00 p.m., New York City time, on the calculation date pertaining to such interest determination date, then the federal funds rate will be the rate on the relevant interest determination date as published in the H.15 Daily Update or another recognized electronic source used for the purpose of displaying the applicable rate, under the heading Federal Funds (Effective Rate).

If that rate does not appear on Reuters Screen FEDFUNDS1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the federal funds rate for that interest determination date will be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight federal funds, as of 9:00 a.m., New York City time, on that interest determination date, arranged by three leading brokers of U.S. dollar federal funds transactions in New York City selected by the calculation agent.

If the brokers selected by the calculation agent are not quoting rates as set forth in the prior paragraph, the federal funds rate in effect for the applicable period will be the same as the federal funds rate for the immediately preceding interest reset period (or, if there was no such interest rate period, then the rate of interest payable will be the initial interest rate).

LIBOR Notes. LIBOR notes will bear interest at the interest rate, calculated with reference to LIBOR and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the LIBOR notes and in the applicable pricing supplement.

Table of Contents

Unless otherwise specified in the applicable pricing supplement, LIBOR for each interest determination date will be determined by the calculation agent as follows. As of the interest determination date, LIBOR will be the arithmetic mean of the offered rates appearing on the Reuters Screen LIBOR page (as defined below) (unless that page by its terms provides only for a single rate, in which case that single rate will be used) for deposits in the index currency having the index maturity designated in the applicable pricing supplement, commencing on the second London banking day immediately following that interest determination date, that appear on the Designated LIBOR Page as of 11:00 a.m., London time, on that interest determination date, if at least two such offered rates appear (unless only a single rate is required) on such Reuters Screen LIBOR Page.

If fewer than two offered rates referenced above appear, LIBOR in respect of the related interest determination date will be determined as follows:

The calculation agent will request the principal London offices of each of four major reference banks in the London interbank market, as selected by the calculation agent, to provide the calculation agent with its offered quotation for deposits in the index currency for the period of the index maturity designated in the applicable pricing supplement, commencing on the second London banking day immediately following that interest determination date, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that interest determination date and in a principal amount that is representative of a single transaction in the index currency in such market at such time. If at least two quotations are provided, LIBOR determined on the applicable interest determination date will be the arithmetic mean of these quotations.

If fewer than two quotations are provided, LIBOR determined on such interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. (or such other time specified in the applicable pricing supplement), in the applicable principal financial center for the country of the index currency on such interest determination date, by three major banks in that principal financial center selected by the calculation agent for loans in the index currency to leading European banks, having the index maturity designated in the applicable pricing supplement and in a principal amount that is representative for a single transaction in the index currency in such market at such time.

If the banks are not quoting as set forth in the prior paragraph, LIBOR in effect for the applicable period will be the same as LIBOR for the immediately preceding interest reset period (or, if there was no such interest reset period, then the rate of interest payable will be the initial interest rate).

Reuters Screen LIBOR Page means the display on the Reuters Monitor Money Rates Service, or any successor or replacement service, on the page designated as LIBOR01 or any successor or replacement page or pages for the purpose of displaying the London interbank rates of major banks for the applicable index currency.

Prime Rate Notes. Prime rate notes will bear interest at the interest rate calculated with reference to the prime rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the prime rate notes and in the applicable pricing supplement.

Table of Contents

Unless otherwise specified in the applicable pricing supplement, prime rate means, the rate set forth in H.15(519) on any interest determination date opposite the heading Bank Prime Loan.

If the prime rate cannot be determined as described above, then the following procedures will apply.

- If that rate is not yet published by 3:00 p.m., New York City time, on the related calculation date pertaining to the relevant interest determination date, then the prime rate will be as published in the H.15 Daily Update, or another recognized electronic source used for the purpose of displaying that rate, under the heading Bank Prime Loan.

- If that rate is not yet published in H.15(519), H.15 Daily Update, or another recognized electronic source by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the prime rate for the interest determination date will be the arithmetic mean of the rates of interest publicly announced by each bank named on the Reuters Screen USPRIME1 (as defined below) as such bank s prime rate or base lending rate as in effect for that interest determination date as quoted on the Reuters Screen USPRIME1 on that interest determination date.

- If fewer than four rates appear on the Reuters Screen USPRIME1 for the interest determination rate, then the rate will be the arithmetic mean of the prime rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that interest determination date by at least two of the three major money center banks in New York City selected by the calculation agent from which quotations are requested.

- If the banks selected by the calculation agent are not quoting rates as set forth in the prior paragraph, the prime rate in effect for the applicable period will be the same as the prime rate for the immediately preceding interest reset period (or, if there was no such interest reset period, then the rate of interest payable will be the initial interest rate).

Reuters Screen USPRIME1 means the display designated as the USPRIME1 page on the Reuters Monitor Money Rates Services (or such other page as may replace the USPRIME1 on that service for the purpose of displaying prime rates or base lending rates of major U.S. banks).

Treasury Rate Notes. Treasury rate notes will bear interest at the interest rate calculated with reference to the treasury rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the treasury rate notes and in the applicable pricing supplement.

Unless otherwise specified in the applicable pricing supplement, treasury rate means, the rate for the auction held on any interest determination date of direct obligations of the United States treasury bills, having the index maturity designated in the applicable pricing supplement, as that rate appears on Reuters Screen US AUCTION 10111.

If the treasury rate cannot be determined as described above, then the following procedures will apply.

- If that rate is no longer displayed on Reuters Screen US AUCTION 10111 by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the treasury rate will be the bond equivalent yield (as described below) for the type of treasury bill described above, as published in the H.15 Daily Update or another recognized electronic source used for the purpose of displaying such rate, under the heading U.S. Government Securities/ Treasury Bills/ Auction High.

- If that rate is not yet published in the H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the treasury rate will be the bond equivalent yield of the auction rate, for treasury bills of the kind described above, as announced by the U.S. Department of the Treasury.

S-12

Table of Contents

If the auction rate described in the prior paragraph is not so announced by the U.S. Department of Treasury, or if no such auction is held, then the treasury rate will be the bond equivalent yield of the rate set forth in H.15(519) for that interest determination date and for treasury bills having a remaining maturity closest to the index maturity designated in the applicable pricing supplement under the heading U.S. Government Securities/ Treasury Bills/ Secondary Market.

If the rate described in the prior paragraph is not yet published in H.15(519) by 3:00 p.m., New York City time, on the calculation date pertaining to the relevant interest determination date, then the treasury rate will be the rate for that interest determination date and for the type of treasury bill described above, as published in H.15 Daily Update or such other recognized electronic source used for the purpose of displaying such rate under the heading U.S. Government Securities/ Treasury Bills/ Secondary Market.

If the rate described in the prior paragraph is not yet published in the H.15 Daily Update or another recognized electronic source by 3:00 p.m., New York City time, then the treasury rate will be the bond equivalent yield of the arithmetic mean of the secondary market bid rates as of approximately 3:30 p.m., New York City time, on that interest determination date, of three primary U.S. government securities dealers in New York City selected by the calculation agent for the issue of treasury bills with a remaining maturity closest to the index maturity designated in the applicable pricing supplement.

If the dealers selected by the calculation agent are not quoting bid rates as set forth in the prior paragraph, the treasury rate in effect for the applicable period will be the same as the treasury rate for the immediately preceding interest reset period (or, if there was no such interest rate period, then the rate of interest payable will be the initial interest rate).

The bond equivalent yield means a yield calculated in accordance with the following formula:

$$\text{bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where D refers to the applicable per annum rate for treasury bills quoted on a bank discount basis, N refers to 365 or 366, as the case may be, and M refers to the actual number of days for which interest is being calculated.

CMT Rate Notes. CMT rate notes will bear interest at the interest rate calculated with reference to the CMT rate and the spread and/or spread multiplier, if any, and subject to the minimum interest rate and the maximum interest rate, if any, specified in the CMT rate notes and in the applicable pricing supplement.

Unless otherwise indicated in an applicable pricing supplement, CMT rate means, with respect to any interest determination date, the rate displayed on the Designated CMT Reuters Page (as defined below) under the caption Treasury Constant Maturities Federal Reserve Board Release H.15 Mondays Approximately 3:45 p.m., under the column for the Designated CMT Maturity Index (as defined below) for:

if the Designated CMT Reuters Page is Reuters Screen FRBCMT the rate on that interest determination date; and

CONDENSED
CONSOLIDATED
STATEMENTS OF
OPERATIONS

(unaudited)

	3 Months Ended			9 M
	September 30			S
In thousands, except per share data	2018	2017	2018	
Revenues:				
Digital product sales	$ 2,857	$ 9,676	$ 9,158	$
Digital product lease and maintenance	593	650	1,889	
Total revenues	3,450	10,326	11,047	
Cost of revenues:				

Cost of digital product sales

Cost of digital product lease and mainte

Total cost of revenues

Gross profit

General and administrative expenses

Operating (loss) income

Interest expense, net

(Loss) gain on foreign currency remeasu

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 integr

TRANS-LUX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	3 Months Ended		9 Months Ended	
	September 30		September 30	
In thousands	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.

2

Table of Contents

TRANS-LUX CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended September 30	
In thousands	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)
Prepaids 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

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.

3

Table of Contents

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 subsidia

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.

Table of Contents

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.

5

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 businessover 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.

7

Table of Contents

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:

	Three months ended September 30		Nine months ended September 30	
In thousands	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

8

Table of Contents

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.

10

Table of Contents

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:

In thousands	Three months ended September 30, 2018	Nine months ended September 30, 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.

Table of Contents

Note 4 Inventories

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:

In thousands	September 30, 2018	December 31, 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:

In thousands	September 30, 2018	December 31, 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.

Table of Contents

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.

The Company has outstanding $220,000 of Debentures. The Debentures matured as of December 1, 2012 and are currently in default. As of September 30, 2018 and December 31, 2017, the Company had accrued $185,000 and $169,000, respectively, of interest related to the Debentures, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets.

On May 23, 2017, the Company received $650,000 structured as a forgivable loan from the City of Hazelwood, Missouri. The loan will be forgiven on a pro-rata basis if predetermined employment levels are attained and would expire on April 1, 2024. If the Company attains the employment levels required by the agreement, there is no interest due, otherwise interest accrues at a rate of prime plus 2.0% (7.25% at September 30, 2018). In February 2018, in accordance with the agreement, the Company requested a 1-year extension of the terms of the agreement, which was approved by the City of Hazelwood in March 2018, so the agreement now terminates on April 1, 2025.

As described in Note 11 Related Party Transactions, the Company has loans aggregating $1.0 million from an entity affiliated with a director of the Company.

14

Table of Contents

Note 8 Pension Plan

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

In accordance with the adoption of ASU 2017-07, the Company has retrospectively revised the presentation of the non-service components of periodic pension benefit to Pension benefit in the Condensed Consolidated Statements of Operations. The following table presents a summary of the effect for periods presented:

	Three months ended September 30,			Nine months ended September 30,		
	2017			2017		
			Effect of			Effect of
In thousands	As reported	As revised	change	As reported	As revised	change
General and administrative expenses	$ 1,512	$ 1,521	$ 9	$ 4,354	$ 4,380	$ 26
Operating income (loss)	147	138	(9)	(2,025)	(2,051)	(26)
Pension benefit	-	(9)	(9)	-	(26)	(26)
Loss before income taxes	$ (123)	$ (123)	$ -	$ (2,632)	$ (2,632)	$ -

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

	Three months ended September 30		Nine months ended September 30	
In thousands	2018	2017	2018	2017
Interest cost	$ 114	$ 117	$ 340	$ 350
Expected return on plan assets	(203)	(180)	(609)	(539)
Amortization of net actuarial loss	56	54	168	163
Net periodic pension benefit	$ (33)	$ (9)	$ (101)	$ (26)

As of September 30, 2018, the Company had recorded a current pension liability of $817,000, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets, and a long-term pension liability of $3.3 million, which is included in Deferred pension liability and other in the Condensed Consolidated Balance Sheets. The minimum required contribution in 2018 is expected to be $592,000. Subsequent to September 30, 2018, the Company contributed $421,000 to the plan, leaving $171,000 that still remains to be paid in 2018.

Note 9 Loss Per Share

The following table presents the calculation of loss per share for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30				Nine months ended September 30			
In thousands, except per share data		2018		2017		2018		2017
Numerator:								
Net loss, as reported	$	(3,080)	$	(123)	$	(4,048)	$	(2,632)
Change in dividends accumulated on preferred shares		(50)		(50)		(149)		(149)
Net loss attributable to common shares	$	(3,130)	$	(173)	$	(4,197)	$	(2,781)
Denominator:								
Weighted average shares outstanding		2,289		1,711		2,232		1,711
Basic and diluted loss per share	$	(1.37)	$	(0.10)	$	(1.88)	$	(1.63)

Table of Contents

Basic loss per common share is computed by dividing net loss attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted loss per common share is computed by dividing net loss attributable to common shares, by the weighted average number of common shares outstanding, adjusted for shares that would be assumed outstanding after warrants and stock options vested under the treasury stock method.

At September 30, 2018 and 2017, the Company had accumulated unpaid dividends of $91,000 related to the Series B Convertible Preferred Stock (Preferred Stock).

On November 6, 2018, the Company declared a semi-annual dividend of $6.00 per share of Preferred Stock aggregating $99,000, which was paid on November 8, 2018. On April 26, 2018, the Company declared a semi-annual dividend of 7.6923 shares of Common Stock per share of Preferred Stock aggregating 127,013 shares of Common Stock, which was distributed to the holders of the Preferred Stock on May 4, 2018.

As of September 30, 2018 and 2017, the Company had warrants to purchase 302,000 shares and 52,000 shares, respectively, of Common Stock outstanding, none of which were used in the calculation of diluted loss per share because their inclusion would have been anti-dilutive. These warrants could be dilutive in the future if the Company records net income instead of net losses and if the average share price increases and is greater than the exercise price of these warrants.

In connection with the SMI Note, the Company 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.

In connection with the SMII Note, the Company 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.

As of September 30, 2018 and 2017, the Company had 16,512 shares of Preferred Stock outstanding, which is convertible into 330,240 shares of Common Stock, none of which were used in the calculation of diluted loss per share because their conversion price was greater than the average stock price for the period and their inclusion would have been anti-dilutive. These shares of Preferred Stock could be dilutive in the future if the average share price increases and is greater than the purchase price of these shares of Preferred Stock.

Table of Contents

Note 10 Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business and/or which are covered by insurance. The Company believes that it has accrued adequate reserves individually and in the aggregate for such legal proceedings. Should actual litigation results differ from the Company s estimates, revisions to increase or decrease the accrued reserves may be required. A vendor has brought a claim against us for $87,000 plus interest and damages. The Company has accrued for the $87,000 plus interest in Accounts payable and in Accrued liabilities in the Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017. Potential damages, if any, are not yet determinable.

Note 11 Related Party Transactions

The Company has the following related party transactions:

The Company received a $500,000 loan from Carlisle Investments Inc. (Carlisle) on April 27, 2016, which is included in Long-term debt related party in the Condensed Consolidated Balance Sheets, and an additional $500,000 loan from Carlisle (Second Carlisle Agreement) on November 6, 2017, which is included in Current portion of long-term debt related party in the Condensed Consolidated Balance Sheets. The loans are at a fixed interest rate of 12.00% with bullet payments of all principal due upon maturity. Interest is payable monthly. Mr. Elser, a director of the Company, exercises voting and dispositive power as investment manager of Carlisle.

Yaozhong Shi, a director of the Company, is the Chairman of Transtech LED Company Limited (Transtech), which is one of our primary LED suppliers. The Company purchased $171,000 and $1.4 million of product from Transtech in the nine months ended September 30, 2018 and 2017, respectively, and $44,000 and $477,000 in the three months ended September 30, 2018 and 2017, respectively. Amounts payable by the Company to Transtech were $272,000 and $149,000 as of September 30, 2018 and December 31, 2017, respectively.

Note 12 Business Segment Data

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

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

17

Table of Contents

Foreign revenues represent less than 10% of the Company s revenues in 2018 and 2017. The Company s foreign operation does not manufacture its own equipment; the domestic operation provides the equipment that the foreign operation leases or sells. The foreign operation operates similarly to the domestic operation and has similar profit margins. Foreign assets are immaterial.

Information about the Company s operations in its two business segments for the three and nine months ended September 30, 2018 and 2017 is as follows:

	Three months ended September 30		Nine months ended September 30	
In thousands	2018	2017	2018	2017
Revenues:				
Digital product sales	$ 2,857	$ 9,676	$ 9,158	$ 15,616
Digital product lease and maintenance	593	650	1,889	1,765
Total revenues	$ 3,450	$ 10,326	$ 11,047	$ 17,381
Operating income (loss):				
Digital product sales	$ (1,903)	$ 697	$ (1,785)	$ (291)
Digital product lease and maintenance	241	227	789	485
Corporate general and administrative expenses	(1,165)	(786)	(2,586)	(2,245)
Total operating (loss) income	(2,827)	138	(3,582)	(2,051)
Interest expense, net	(238)	(202)	(652)	(514)
(Loss) gain on foreign currency remeasurement	(48)	(101)	74	(192)
Gain on sale leaseback transaction	-	33	11	99
Pension benefit	33	9	101	26
Loss before income taxes	(3,080)	(123)	(4,048)	(2,632)
Income tax expense	-	-	-	-
Net loss	$ (3,080)	$ (123)	$ (4,048)	$ (2,632)

	September 30 2018	December 31 2017
Assets		
Digital product sales	$ 7,231	$ 9,722
Digital product lease and maintenance	3,261	4,515
Total identifiable assets	10,492	14,237
General corporate	296	747
Total assets	$ 10,788	$ 14,984

Note 13 Subsequent Events

The Company has evaluated events and transactions subsequent to September 30, 2018 and through the date these Condensed Consolidated Financial Statements were included in this Form 10-Q and filed with the SEC.

On October 5, 2018, the Company issued 20,000 shares of Common Stock to Alberto Shaio in connection with his new employment agreement as President and Chief Executive Officer of the Company.

On November 5, 2018, the Company entered into a Securities Purchase Agreement (the SPA) with Unilumin North America Inc. (Unilumin), pursuant to which Unilumin purchased 1,315,789 shares of Common Stock, for a purchase price of $1,500,000 (the Purchase), or a per share purchase price of $1.14. The SPA requires that the proceeds of the Purchase are to be utilized for mutually agreed purposes. In connection with the SPA, the Company issued warrants (the Warrants) to purchase 5,670,103 shares of the Company s Common Stock to Unilumin at an exercise price of $0.97 per share. The exercise price of the Warrants is automatically adjusted to $0.75 per share if the Company is unable to complete a financing of $2,500,000 through a rights offering by June 1, 2019 (the Rights Offering). The exercise price of the Warrants will also be decreased to the same price as the exercise price of the rights issued in the Rights Offering if the exercise price of such rights is less than $1.00 per share. The Warrants are exercisable until November 2, 2020, provided that they are mandatorily exercisable upon completion of the Rights Offering if in excess of 90% of the Company s currently issued and outstanding Preferred Stock converts into Common Stock. In connection with any such Preferred Stock conversion, Unilumin acknowledged that the conversion price of the Preferred Stock may be decreased, subject to stockholder approval. If all or a significant portion of the Warrants are exercised, Unilumin would own in excess of fifty percent of the Company s outstanding Common Stock on a fully diluted basis, even if the Rights Offering is completed.

18

Table of Contents

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

Overview

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

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

Going Concern

We do not have adequate liquidity, including access to the debt and equity capital markets, to operate our businessover 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 to the Condensed Consolidated Financial Statements 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. Further, the Company s obligations under its defined benefit 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 Notes and 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. The Company and 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. 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.

Table of Contents

Moreover, because of the uncertainty surrounding our ability to obtain additional liquidity and the potential of the noteholders and/or trustees to give notice to the Company of a default on either the Debentures or the Notes, our independent registered public accounting firm has issued an opinion on our December 31, 2017 Consolidated Financial Statements that states that the Consolidated Financial Statements were prepared assuming we will continue as a going concern and further states that the uncertainty regarding the ability to make the required principal and interest payments on the Notes and the Debentures, in addition to the significant amount due to the Company s defined benefit pension plan over the next 12 months, net losses and working capital deficiencies, raises substantial doubt about our ability to continue as a going concern. See Note 2 to the Condensed Consolidated Financial Statements Going Concern.

Results of Operations

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

The following table presents our Statements of Operations data, expressed as a percentage of revenue for the nine months ended September 30, 2018 and 2017:

	Nine months ended September 30					
In thousands, except percentages		2018			2017	
Revenues:						
Digital product sales	$	9,158	82.9%	$	15,616	89.8%
Digital product lease and maintenance		1,889	17.1%		1,765	10.2%
Total revenues		11,047	100.0%		17,381	100.0%
Cost of revenues:						
Cost of digital product sales		7,750	70.1%		13,929	80.1%
Cost of digital product lease and maintenance		991	9.0%		1,123	6.5%
Total cost of revenues		8,741	79.1%		15,052	86.6%
Gross profit		2,306	20.9%		2,329	13.4%
General and administrative expenses		(5,888)	(53.3)%		(4,380)	(25.2)%
Operating loss		(3,582)	(32.4)%		(2,051)	(11.8)%
Interest expense, net		(652)	(5.9)%		(514)	(2.9)%
Gain (loss) on foreign currency remeasurement		74	0.7%		(192)	(1.1)%
Gain on sale/leaseback transaction		11	0.1%		99	0.6%
Pension benefit		101	0.9%		26	0.1%
Loss before income taxes		(4,048)	(36.6)%		(2,632)	(15.1)%
Income tax expense		-	-%		-	-%
Net loss	$	(4,048)	(36.6)%	$	(2,632)	(15.1)%

Table of Contents

Total revenues for the nine months ended September 30, 2018 decreased \$6.3 million or 36.4% to \$11.0 million from \$17.4 million for the nine months ended September 30, 2017, primarily due to a decrease in Digital product sales, partially offset by increases in consulting services and Digital product lease and maintenance.

Digital product sales revenues decreased \$6.5 million or 41.4% for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to a decrease in single large scoreboard customer sales, partially offset by an increase in consulting services.

Digital product lease and maintenance revenues increased \$124,000 or 7.0% for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to billing credits recorded in the nine months ended September 30, 2017 that did not recur in the same period in 2018, partially offset by the continued expected revenue decline in the older outdoor display equipment rental and maintenance bases acquired in the early 1990s. The financial services market continues to be negatively impacted by the current investment climate resulting in consolidation within that industry and the wider use of flat-panel screens for smaller applications.

Total operating loss for the nine months ended September 30, 2018 increased \$1.5 million to \$3.6 million from \$2.1 million for the nine months ended September 30, 2017, principally due to an increase in general and administrative expenses, which was primarily related to an increase in bad debt expense as discussed further below.

Digital product sales operating loss increased \$1.5 million to \$1.8 million for the nine months ended September 30, 2018 compared to \$291,000 for the nine months ended September 30, 2017, primarily due to an increase in general and administrative expenses. The cost of Digital product sales decreased \$6.2 million or 44.4%, primarily due to the decrease in revenues and the low incremental costs related to the consulting revenue. The cost of Digital product sales represented 84.6% of related revenues for the nine months ended September 30, 2018 compared to 89.2% for the nine months ended September 30, 2017. This decrease as a percentage of revenues is primarily due to the low incremental costs related to the consulting revenue in the nine months ended September 30, 2018. Digital product sales general and administrative expenses increased \$1.2 million, primarily due to an increase in bad debt expense related to two customers.

Digital product lease and maintenance operating income increased \$304,000 to \$789,000 for the nine months ended September 30, 2018 as compared \$485,000 for the nine months ended September 30, 2017, primarily due to the increase in revenues, as well as a decrease in the cost of Digital product lease and maintenance and a decrease in general and administrative expenses. The cost of Digital product lease and maintenance decreased \$132,000 or 11.8% for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to a decrease in depreciation expense. The cost of Digital product lease and maintenance revenues represented 52.5% of related revenues in for the nine months ended September 30, 2018 compared to 63.6% for the nine months ended September 30, 2017. The cost of Digital product lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital product lease and maintenance general and administrative expenses decreased $48,000 or 30.6%, primarily due to decreases in consulting expenses and bad debt expense.

Table of Contents

Corporate general and administrative expenses increased $341,000 or 15.2% for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to increases in consulting expenses of $354,000 and professional fees of $178,000, partially offset by decreases in rent and office expenses of $74,000, travel and entertainment expenses of $56,000 and payroll and benefits of $30,000.

Net interest expense increased $138,000 or 26.8% for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to an increase in the average outstanding long-term debt, primarily due to the Second Carlisle Agreement, the forgivable loan and the SM Investors loans, partially offset by a reduction in the revolving loan balance.

The effective tax rate for the nine months ended September 30, 2018 and 2017 was 0.0%. Both the 2018 and 2017 tax rates are being affected by the valuation allowance on the Company s deferred tax assets as a result of reporting pre-tax losses.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

The following table presents our Statements of Operations data, expressed as a percentage of revenue for the three months ended September 30, 2018 and 2017:

	Three months ended September 30					
In thousands, except percentages		2018			2017	
Revenues:						
Digital product sales	$	2,857	82.8%	$	9,676	93.7%
Digital product lease and maintenance		593	17.2%		650	6.3%
Total revenues		3,450	100.0%		10,326	100.0%
Cost of revenues:						
Cost of digital product sales		2,870	83.2%		8,291	80.3%
Cost of digital product lease and maintenance		315	9.1%		376	3.6%
Total cost of revenues		3,185	92.3%		8,667	83.9%
Gross profit		265	7.7%		1,659	16.1%
General and administrative expenses		(3,092)	(89.6)%		(1,521)	(14.8)%
Operating loss		(2,827)	(81.9)%		138	1.3%
Interest expense, net		(238)	(6.9)%		(202)	(1.9)%
Loss on foreign currency remeasurement		(48)	(1.4)%		(101)	(1.0)%
Gain on sale/leaseback transaction		-	-%		33	0.3%
Pension benefit		33	0.9%		9	0.1%
Loss before income taxes		(3,080)	(89.3)%		(123)	(1.2)%

Income tax expense		-	-%		-	-%
Net loss	$	(3,080)	(89.3)%	$	(123)	(1.2)%

Total revenues for the three months ended September 30, 2018 decreased $6.9 million or 66.6% to $3.4 million from $10.3 million for the three months ended September 30, 2017, primarily due to decreases in Digital product sales.

Table of Contents

Digital product sales revenues decreased $6.8 million or 70.5% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to a decrease in single large scoreboard customer sales.

Digital product lease and maintenance revenues decreased $57,000 or 8.8% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to the continued expected revenue decline in the older outdoor display equipment rental and maintenance bases acquired in the early 1990s. The financial services market continues to be negatively impacted by the current investment climate resulting in consolidation within that industry and the wider use of flat-panel screens for smaller applications.

Total operating (loss) income for the three months ended September 30, 2018 decreased $3.0 million to a loss of $2.8 million from income of $138,000 for the three months ended September 30, 2017, principally due to the decrease in revenues and an increase in general and administrative expenses, which was primarily related to an increase in bad debt expense as discussed further below.

Digital product sales operating (loss) income decreased $2.6 million to a loss of $1.9 million for the three months ended September 30, 2018 compared to income of $697,000 for the three months ended September 30, 2017, primarily due to the decrease in revenues and an increase in general and administrative expenses. The cost of Digital product sales decreased $5.4 million or 65.4% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to the decrease in revenues. The cost of Digital product sales represented 100.5% of related revenues in the three months ended September 30, 2018 compared to 85.7% in the three months ended September 30, 2017. The increase as a percentage of revenues is primarily due to increases in the reserve for obsolete inventory and warranty charges. Digital product sales general and administrative expenses increased $1.2 million in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to an increase in bad debt expense, partially offset by decreases in payroll and benefits and marketing expenses.

Digital product lease and maintenance operating income increased $14,000 or 6.2% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily as a result of a reductions in general and administrative expenses and depreciation. The cost of Digital product lease and maintenance decreased $61,000 or 16.2% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to a reduction in depreciation. The cost of Digital product lease and maintenance revenues represented 53.1% of related revenues in the three months ended September 30, 2018 compared to 57.8% in the three months ended September 30, 2017. The cost of Digital product lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital product lease and maintenance general and administrative expenses decreased $10,000 or 21.3% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to a decrease in consulting expenses.

Corporate general and administrative expenses increased $379,000 or 48.2% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to increases in consulting expenses of $352,000 and professional fees of $75,000, partially offset by decreases in travel and entertainment expenses of $27,000, rent expense of $19,000 and payroll and benefits of $12,000.

Net interest expense increased $36,000 or 17.8% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to an increase in the average outstanding long-term debt, primarily due to the Second Carlisle Agreement, the forgivable loan and the SM Investors loans, partially offset by a reduction in the revolving loan balance.

The effective tax rate for the three months ended September 30, 2018 and 2017 was 0.0%. Both the 2018 and 2017 tax rates are being affected by the valuation allowance on the Company s deferred tax assets as a result of reporting pre-tax losses.

Liquidity and Capital Resources

Current Liquidity

The Company has incurred significant recurring losses and continues to have a significant working capital deficiency. The Company had a working capital deficiency of $9.2 million as of September 30, 2018. As of December 31, 2017, the Company had a working capital deficiency of $5.8 million. The increase in the working capital deficiency is primarily due to decreases in receivables, prepaids and cash and increases in accrued liabilities and accounts payable, partially offset by decreases in the current portion of long-term debt and customer deposits.

On November 5, 2018, the Company entered into an SPA with Unilumin, pursuant to which Unilumin purchased 1,315,789 shares of Common Stock, for a purchase price of $1,500,000, or a per share purchase price of $1.14. The SPA requires that the proceeds of the Purchase are to be utilized for mutually agreed purposes. In connection with the SPA, the Company issued the Warrants to purchase 5,670,103 shares of the Company s Common Stock to Unilumin at an exercise price of $0.97 per share. The exercise price of the Warrants is automatically adjusted to $0.75 per share if the Company is unable to complete a financing of $2,500,000 through the Rights Offering by June 1, 2019. The exercise price of the Warrants will also be decreased to the same price as the exercise price of the rights issued in the Rights Offering if the exercise price of such rights is less than $1.00 per share. The Warrants are exercisable until November 2, 2020, provided that they are mandatorily exercisable upon completion of the Rights Offering if in excess of 90% of the Company s currently issued and outstanding Preferred Stock converts into Common Stock. In connection with any such Preferred Stock conversion, Unilumin acknowledged that the conversion price of the Preferred Stock may be decreased, subject to stockholder approval. If all or a significant portion of the Warrants are exercised, Unilumin would own in excess of fifty percent of the Company s outstanding Common Stock on a fully diluted basis, even if the Rights Offering is completed.

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. As a result, we have experienced a decline in our lease and maintenance bases. The cash flows of the Company are constrained and, in order to more effectively manage its cash resources, the Company has, from time to time, increased the timetable of its payment of some of its payables. There can be no assurance that we will meet our anticipated current and near-term cash requirements. Management believes that its current cash resources and cash provided by operations would not be sufficient to fund its anticipated current and near-term cash requirements and is seeking additional financing in order to execute our operating plan. We cannot predict whether future financing, if any, will be in the form of equity, debt or a combination of both. We may not be able to obtain additional funds on a timely basis, on acceptable terms or at all. 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. The Company continually evaluates the need and availability of long-term capital in order to meet its cash requirements and fund potential new opportunities.

Table of Contents

The Company generated cash of $434,000 from operating activities for the nine months ended September 30, 2018 and used cash of $294,000 from operating activities for the nine months ended September 30, 2017. The Company has implemented several initiatives to improve operational results and cash flows over future periods, including reducing head count, reorganizing its sales department, outsourcing certain administrative functions and expanding its sales and marketing efforts in the LED lighting market. The Company continues to explore ways to reduce operational and overhead costs. The Company periodically takes steps to reduce the cost to maintain the digital products on lease and maintenance agreements.

Cash, cash equivalents and restricted cash decreased $663,000 in the nine months ended September 30, 2018 to $1.2 million at September 30, 2018 from $1.9 million at December 31, 2017. The decrease is primarily attributable to payments on the revolving loan of $1.8 million, scheduled payments of long-term debt of $150,000 and investment in property and equipment of $135,000, partially offset by borrowings of long-term debt of $1.0 million and cash provided by operating activities of $434,000. 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 2018 until the underlying debts mature.

The following table summarizes the Company s fixed cash obligations as of September 30, 2018 for the remainder of 2018 and over the next four fiscal years:

In thousands	Remainder of 2018	2019	2020	2021	2022
Long-term debt, including interest	$ 2,739	$ 1,303	$ 1,076	$ -	$ -
Pension plan payments	592	290	312	276	333
Employment agreement obligations	113	450	338	-	-
Estimated warranty liability	38	132	101	73	47
Operating lease payments	177	419	337	342	348
Total	$ 3,659	$ 2,594	$ 2,164	$ 691	$ 728

Table of Contents

Of the fixed cash obligations for debt for the remainder of 2018, $1.1 million, including interest, of Notes and Debentures remained outstanding as of September 30, 2018. 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 such financing or the terms thereof. 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.

For a further description of the Company s long-term debt, see Note 7 to the Condensed Consolidated Financial Statements Long-Term Debt.

Pension Plan Contributions

At this time, we expect to make our minimum required contributions in 2018 of $592,000 Subsequent to September 30, 2018, we contributed $421,000 to the plan, leaving $171,000 that still remains to be paid in 2018, however, there is no assurance that we will be able to make any or all of such remaining payments. See Note 8 to the Condensed Consolidated Financial Statements Pension Plan for further details.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk on its long-term debt. The Company manages its exposure to changes in interest rates by the use of variable and fixed interest rate debt. The fair value of the Company s fixed rate long-term debt is disclosed in Note 7 to the Condensed Consolidated Financial Statements Long-Term Debt. Every 1-percentage-point change in interest rates would result in an annual interest expense fluctuation of approximately $22,000. In addition, the Company is exposed to foreign currency exchange rate risk mainly as a result of its investment in its Canadian subsidiary. A 10% change in the Canadian dollar relative to the U.S. dollar would result in a currency remeasurement expense fluctuation of approximately $273,000, based on dealer quotes, considering current exchange rates. The Company does not enter into derivatives for trading or speculative purposes and did not hold any derivative financial instruments at September 30, 2018.

Table of Contents

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 Chief Executive Officer and Chief Accounting Officer (our principal executive officer and principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Our Chief Executive Officer and Chief Accounting 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 SEC and that such information is accumulated and communicated to our management (including our Chief Executive Officer and Chief Accounting Officer) to allow timely decisions regarding required disclosures. Based on such evaluation, our Chief Executive Officer and Chief Accounting Officer have concluded that these disclosure controls are effective as of September 30, 2018.

Changes in Internal Control over Financial Reporting. Other than the changes discussed in relation to the new revenue recognition standards in Note 3 to the Condensed Consolidated Financial Statements Revenue Recognition, there has been no change in the Company s internal control over financial reporting that occurred in the quarter ended September 30, 2018 and that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business and/or which are covered by insurance. The Company 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. A vendor has brought a claim against us for $87,000 plus interest and damages. The Company has accrued for the $87,000 plus interest in Accounts payable and in Accrued liabilities in the Consolidated Balance Sheet at September 30, 2018. Potential damages, if any, are not yet determinable.

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, 2017. There have been no material changes to those previously disclosed risk factors.

Table of Contents

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

Not applicable.

Item 3. Defaults upon Senior Securities

As disclosed in Note 7 to the Condensed Consolidated Financial Statements Long-Term Debt, 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. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Notes outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately.

As disclosed in Note 7 to the Condensed Consolidated Financial Statements Long-Term Debt, the Company has outstanding $220,000 of Debentures. The Debentures matured as of December 1, 2012 and are currently in default. As of September 30, 2018 and December 31, 2017, the Company had accrued $185,000 and $169,000, respectively, of interest related to the Debentures, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets. The trustee, by notice to the Company, or the holders of 25% of the principal amount of the Debentures outstanding, by notice to the Company and the trustee, may declare the outstanding principal plus interest due and payable immediately.

As disclosed in Note 7 to the Condensed Consolidated Financial Statements Long-Term Debt, the Company had outstanding $933,000 and $640,000 under the Credit Agreement as of September 30, 2018. The Company and 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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 6, 2018, the Company declared a semi-annual dividend of $6.00 per share of Preferred Stock aggregating $99,000, which was paid on November 8, 2018.

Table of Contents

Item 6. Exhibits

10.1 Employment agreement with Alberto Shaio dated September 28, 2018, (incorporated by reference to Exhibit 10.1 of Form 8-K dated October 4, 2018).

10.2 Employment agreement with Todd Dupee dated October 22, 2018, (incorporated by reference to Exhibit 10.1 of Form 8-K dated October 26, 2018).

10.3 Separation agreement and general release with Jean-Marc Allain dated effective July 13, 2018, filed herewith.

10.4 Forbearance Agreement to Credit and Security Agreement, dated as of November 7, 2018, by and among CNH Finance Fund I, L.P., Trans-Lux Corporation, Trans-Lux Display Corporation, Trans-Lux Midwest Corporation and Trans-Lux Energy Corporation, filed herewith.

10.5 Securities Purchase Agreement dated as of November 2, 2018 by and between the Company and Unilumin (incorporated by reference to Exhibit 10.1 of Form 8-K filed November 8, 2018).

10.6 Warrant, dated as of November 2, 2018, issued to Unilumin (incorporated by reference to Exhibit 10.2 of Form 8-K filed November 8, 2018).

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, 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, 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.

Table of Contents

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

Date: November 9, 2018