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Turtle Beach Corp  
Form 10-Q  
August 06, 2018

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

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35465

TURTLE BEACH CORPORATION  
(Exact name of registrant as specified in its charter)

Nevada 27-2767540  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

11011 Via Frontera, Suite A/B 92127  
San Diego, California  
(Address of principal executive offices) (Zip Code)

(888) 496-8001  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

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

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

The number of shares of the registrant's Common Stock, par value \$0.001 per share, outstanding on July 31, 2018 was 13,796,031.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

Turtle Beach Corporation

Condensed Consolidated Balance Sheets

	June 30, 2018 (unaudited)	December 31, 2017 (unaudited)
	(in thousands, except par value and share amounts)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$9,108	\$ 5,247
Accounts receivable, net	34,582	50,534
Inventories	28,043	27,518
Prepaid expenses and other current assets	5,190	3,467
Total Current Assets	76,923	86,766
Property and equipment, net	2,839	4,677
Intangible assets, net	1,196	1,404
Deferred income taxes	127	362
Other assets	1,095	1,042
Total Assets	\$82,180	\$ 94,251
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current Liabilities:		
Revolving credit facility	\$—	\$ 38,467
Term loans	375	4,173
Accounts payable	29,976	13,459
Other current liabilities	14,061	11,451
Total Current Liabilities	44,412	67,550
Term loans, long-term portion, net of unamortized debt issuance costs of \$734 and \$759	11,391	6,789
Series B redeemable preferred stock	—	18,921
Subordinated notes - related party, net of unamortized discount of \$811 and \$1,075	19,092	20,836
Other liabilities	2,311	2,312
Total Liabilities	77,206	116,408
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common stock, \$0.001 par value - 25,000,000 shares authorized; 13,794,251 and 12,349,449 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	14	12
Additional paid-in capital	167,668	148,082
Accumulated deficit	(162,390)	(170,048)
Accumulated other comprehensive loss	(318)	(203)
Total Stockholders' Equity (Deficit)	4,974	(22,157)
Total Liabilities and Stockholders' Equity (Deficit)	\$82,180	\$ 94,251

See accompanying Notes to the Condensed Consolidated Financial Statements (unaudited)

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Turtle Beach Corporation  
Condensed Consolidated Statements of Operations  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(in thousands, except per-share data)			
Net revenue	\$ 60,805	\$ 19,112	\$ 101,691	\$ 33,464
Cost of revenue	40,528	12,811	66,385	24,947
Gross profit	20,277	6,301	35,306	8,517
Operating expenses:				
Selling and marketing	6,818	5,529	12,747	9,978
Research and development	1,327	1,697	2,656	3,087
General and administrative	3,863	4,070	7,848	8,241
Restructuring charges	—	(30 )	—	268
Total operating expenses	12,008	11,266	23,251	21,574
Operating income (loss)	8,269	(4,965 )	12,055	(13,057 )
Interest expense	1,258	1,835	3,263	3,675
Other non-operating expense (income), net	410	(214 )	165	(265 )
Income (loss) before income tax				
Digital display sales	\$ 4,569	\$ 3,287	\$ 9,778	\$ 5,738
Digital display lease and maintenance	1,332	1,500	2,587	3,145
Total revenues	5,901	4,787	12,365	8,883
<b>Cost of revenues:</b>				
Cost of digital display sales	4,192	2,478	8,015	4,557
Cost of digital display lease and maintenance	1,024	1,248	2,049	2,513
Total cost of revenues	5,216	3,726	10,064	7,070
<b>Gross profit from operations</b>	685	1,061	2,301	1,813
General and administrative expenses	(2,686)	(2,120)	(4,435)	(4,031)
Restructuring costs	-	1	-	(49)
<b>Operating loss</b>	(2,001)	(1,058)	(2,134)	(2,267)
Interest expense, net	(70)	(42)	(140)	(83)
Loss on sale of receivables	-	(348)	-	(348)
Change in warrant liabilities and other warrant expense	(423)	732	(376)	664
<b>Loss from continuing operations before income taxes</b>	(2,494)	(716)	(2,650)	(2,034)
Income tax expense	(10)	(8)	(16)	(16)
<b>Loss from continuing operations</b>	(2,504)	(724)	(2,666)	(2,050)
<b>Income from discontinued operations</b>	-	1	-	1,023
<b>Net loss</b>	\$ (2,504)	\$ (723)	\$ (2,666)	\$ (1,027)

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Loss per share continuing operations					
- basic and diluted	\$	(2.26)	\$	(0.71)	\$
					\$
					(2.01)
Income per share discontinued operations - basic and diluted		-		-	
					1.00
Total loss per share - basic and diluted	\$	(2.26)	\$	(0.71)	\$
					(1.01)

Weighted average common shares outstanding - basic and diluted		1,109		1,020		1,080		1,020
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

In thousands	Three Months Ended		Six Months Ended					
	June 30		June 30					
	2014	2013	2014	2013				
Net loss	\$	(2,504)	\$	(723)	\$	(2,666)	\$	(1,027)
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)		109		(109)		(17)		(194)
Total other comprehensive income (loss), net of tax		109		(109)		(17)		(194)
Comprehensive loss	\$	(2,395)	\$	(832)	\$	(2,683)	\$	(1,221)

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

Six Months Ended

June 30

In thousands

2014

2013

**Cash flows from operating activities**

Net loss

\$

(2,666)

\$

(1,027)

Add back: Income from discontinued operations



	-
	(1,023)
Loss from continuing operations	
	(2,666)
	(2,050)
Adjustment to reconcile net loss from continuing operations to net cash used in operating activities:	
Depreciation and amortization	
	1,565
	1,809
Loss on receivable financing	
	-
	348

Amortization of warrants	42
	-
Change in warrant liabilities	334
	(664)
Changes in operating assets and liabilities:	
Receivables	(514)
	(88)
Inventories	182
	10

	(269)
Prepays and other assets	
	816
	(436)
Accounts payable and accrued liabilities	
	757
	701
Deferred pension liability and other	
	(599)
	65
Net cash used in operating activities	
	(83)
	(584)
<b>Cash flows from investing activities</b>	

Equipment manufactured for rental

(19)

(57)

Purchases of property and equipment

(2)

(185)

Net cash used in investing activities

(21)

(242)

**Cash flows from financing activities**

Payments of long-term debt

(30)

(1,028)

Proceeds from issuance of restricted stock and warrants

2,200

-

Proceeds from receivable financing

-

887

Net cash provided by (used in) financing activities

2,170

(141)

**Cash flows from discontinued operations**

Cash used in operating activities of discontinued operations

-

(779)

Cash provided by investing activities of discontinued operations

-

2,493

Cash used in financing activities of discontinued operations

-

(1,723)

Net cash used in discontinued operations

	-
	(9)
Net increase (decrease) in cash and cash equivalents	
	2,066
	(976)
Cash and cash equivalents at beginning of year	
	55
	1,164
<b>Cash and cash equivalents at end of period</b>	
\$	2,121
\$	188
Supplemental disclosure of cash flow information:	

Interest paid

\$

15

\$

57

Income taxes paid

-

-

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



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TRANS-LUX CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

## **Note 1 Basis of Presentation**

Financial information included herein is unaudited, however, such information reflects all adjustments (of a normal and recurring nature), which are, in the opinion of management, necessary for the fair presentation of the Condensed Consolidated Financial Statements for the interim periods. The results for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and therefore do not include all information and footnote disclosures required under accounting principles generally accepted in the United States of America. The June 30, 2014 Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Condensed Consolidated Balance Sheet at December 31, 2013 is derived from the December 31, 2013 audited financial statements.

There have been no material changes in our significant accounting policies during the six months ended June 30, 2014 as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2013. The Company has evaluated subsequent events through the filing date of this Form 10-Q and has determined that there were no subsequent events to recognize or disclose in these financial statements.

*Recent Accounting Pronouncements:* In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 ( ASU 2014-09 ) Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes the most current revenue recognition guidance in FASB ASC 605 Revenue Recognition, including industry-specific guidance. ASU 2014-09 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2016, including interim periods

within that reporting period; early adoption is not permitted. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

*Reclassifications:* Certain reclassifications of prior years' amounts have been made to conform to the current year's presentation. As approved by shareholders at the Company's Annual Meeting on October 2, 2013, the Company enacted a 1,000:1 reverse stock split followed immediately by a 1:40 forward stock split effective October 29, 2013. As a result, on October 29, 2013, every 1,000 outstanding shares of Common Stock were exchanged into 1 share of Common Stock. Any shareholders who owned fractional shares of Common Stock after the reverse stock split were cashed out at the closing market price of \$0.29 on October 25, 2013. At the conclusion of the forward stock split, every 1 outstanding share of Common Stock was exchanged into 40 shares of Common Stock. Unless otherwise indicated, all share and per share information in this Form 10-Q has been adjusted for the reverse and forward stock splits.

## **Note 2 - Going Concern**

A fundamental principle of the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 Condensed Consolidated Financial Statements on a going concern basis.

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Management cannot provide any assurance that the Company would have sufficient cash and liquid assets to fund normal operations. Further, the Company's obligations under its pension plan exceeded plan assets by \$4.5 million at June 30, 2014 and the Company had \$1.5 million due under its pension plan over the next 12 months. Additionally, if the Company is unable to cure the defaults on the Debentures and the Notes, the Debentures and the Notes could be called and be immediately due. If the Debentures and Notes are called, the Company would need to obtain new financing. There can be no assurance that the Company will be able to do so and, even if it obtains such financing, how the terms of such financing will affect the Company. If the debt is called and new financing cannot be arranged, it is unlikely that the Company will be able to continue as a going concern. 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 8 - Long-Term Debt for further details.

Subsequent to June 30, 2014, the Company made its regularly scheduled quarterly contribution of \$280,000 to the Company's pension plan. The Company continues to consider further exchanges of the \$1.1 million of remaining Notes and the \$334,000 of remaining Debentures which started as part of our 2011 financial restructuring. 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.

### **Note 3 - Plan of Restructuring**

In 2011, the Company's Board of Directors approved a comprehensive restructuring plan which included offers to the holders of the 8¼% Limited convertible senior subordinated notes due 2012 (the Notes) the right to receive \$225, without accrued interest, plus 10 shares of the Company's Common Stock for each \$1,000 Note exchanged and to the holders of the 9½% Subordinated debentures due 2012 (the Debentures) the right to receive \$100, without accrued interest, for each \$1,000 Debenture exchanged. The Debentures are subordinate to the claims of the holders of the Notes, among other senior claims. In November 2011, \$9.0 million principal amount of the Notes and \$718,000 principal amount of the Debentures were exchanged. The Company issued 80,800 shares of Common Stock in exchange for the Notes and the Company recorded a gain of \$8.8 million on debt extinguishment of principal and accrued interest on the Notes and Debentures during the year ended December 31, 2011. The offer expired in 2011, but the Company continues to consider further exchanges of the Notes and Debentures. No Notes or Debentures have been exchanged in the six months ended June 30, 2014 or in the six months ended June 30, 2013.



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As part of the restructuring plan, on November 14, 2011, the Company completed the sale of an aggregate of \$8.3 million of securities (the Offering) consisting of (i) 416,500 shares of the Company's Series A Convertible Preferred Stock, par value \$1.00 per share (the Preferred Stock), having a stated value of \$20.00 per share, which converted into 833,000 shares of the Company's Common Stock, par value \$0.001 per share, and (ii) 166,600 one-year warrants (the A Warrants). These securities were organized into units, and were issued at a purchase price of \$20,000 per unit (the Units). Each Unit consisted of 1,000 shares of the Company's Preferred Stock, which converted into 2,000 shares of the Company's Common Stock, and 400 A Warrants. Each A Warrant entitled the holder to purchase one share of the Company's Common Stock and a three-year warrant (the B Warrants), at an exercise price of \$5.00 per share. 5,400 A Warrants have been exercised and accordingly, 5,400 B Warrants have been issued. The expiration date of the A Warrants was subsequently extended until September 13, 2013, at which time 161,200 unexercised A Warrants expired. As a result of the Retop investment (see Note 10 Securities Purchase Agreement for Common Stock) and the repricing clause in the B Warrant agreement, there are now 11,250 B Warrants that each entitle the holder to purchase one share of the Company's Common Stock at an exercise price of \$6.00 per share.

R.F. Lafferty & Co., Inc., (the Placement Agent) a FINRA registered broker-dealer, was engaged as Placement Agent in connection with the Offering. The Placement Agent was paid fees based upon a maximum of an \$8 million raise. Such fees consisted of a cash fee in the amount of \$200,000, a one year note for \$200,000 at a 4.00% rate of interest and three-year warrants to purchase 24 Units (the Placement Agent Warrants). The A Warrants issuable upon exercise of the Placement Agent Warrants and the B Warrants issuable upon exercise of the A Warrants underlying the Placement Agent Warrants are substantially the same as the A Warrants and B Warrants sold in the Offering, except that they have the following exercise periods: (i) the A Warrants issuable upon exercise of the Placement Agent Warrants shall be exercisable for a period of two years from the date of exercise of the Placement Agent Warrants; and (ii) the B Warrants issuable upon exercise of the A Warrants underlying the Placement Agent Warrants shall be exercisable for a period equal to the longer of three years from the Closing Date or one year from the date of exercise of the A Warrants underlying the Placement Agent Warrants. As a result of the Retop investment (see Note 10 Securities Purchase Agreement for Common Stock) and the repricing clause in the Placement Agent Warrant agreement, there are now 100,000 Placement Agent Warrants exercisable at a price of \$6.00 per share. The Placement Agent A Warrants and the Placement Agent B Warrants issuable upon exercise of the Placement Agent Warrants will be exercisable at a price of \$5.00 per share in the case of the A Warrants and \$12.50 per share in the case of the B Warrants, on the same terms as provided in the A Warrants and B Warrants sold in the Offering.

The net proceeds of the Offering were used to fund the restructuring of the Company's outstanding debt, which included: (1) a cash settlement to holders of the Notes in the amount of \$2.0 million; (2) a cash settlement to holders of the Debentures in the amount of \$72,000; (3) payment of the Company's outstanding term loan with the senior lender in the amount of \$321,000 and (4) payment of \$1.0 million on the Company's outstanding revolving loan with the senior lender under the Credit Agreement. The net proceeds of the Offering remaining after payment to holders of the Notes, the Debentures and the senior lender were used to pay the remaining \$3.0 million outstanding under the revolving loan with the senior lender under the Credit Agreement and for working capital.



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As of June 30, 2014, the investors have purchased 5,400 shares of our Common Stock by exercising 5,400 A Warrants and are now entitled to purchase an additional 11,250 shares (as a result of the Retop investment (see Note 10 Securities Purchase Agreement for Common Stock) and the repricing clause in the B Warrant agreement) of our Common Stock if they exercise their B Warrants, all of which were issued in connection with the their investment in the Series A Convertible Preferred Stock, which does not include the 159,200 warrants held or obtainable by the Placement Agent and the subscriber in connection with the sale of \$650,000 of 4.00% secured notes. See Note 7 Warrant Liabilities.

The Company began a restructuring plan by reducing operating costs in 2010, and additional restructuring charges were required in subsequent years. We expect that the remainder of these costs will be paid over the next 12 months.

The following table shows the remaining accrued balance of restructuring costs as of June 30, 2014, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets:

	Balance		Payments and		Balance
	December 31,		Other		June 30, 2014
	2013	Provision	Adjustments		
Severance costs <sup>(1)</sup>	\$ 23	\$ -	\$ -	\$ -	\$ 23
Other fees	-	-	-	-	-
	\$ 23	\$ -	\$ -	\$ -	\$ 23

(1) Represents salaries for employees separated from the Company.

The following table shows, by reportable segment, the remaining accrued balance of restructuring costs as of June 30, 2014:

	Balance		Payments and		Balance
	December 31,		Other		June 30, 2014
	2013	Provision	Adjustments		
Digital display sales	\$ -	\$ -	\$ -	\$ -	\$ -
	23	-	-	-	23

Digital display lease and maintenance

\$	23	\$	-	\$	-	\$	23
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**Note 4 Discontinued Operations**

The Company has accounted for the Real Estate Division as discontinued operations and, accordingly, has restated all prior period information.

On February 26, 2013, the Company completed a short sale of its real estate rental property located in Santa Fe, New Mexico for a purchase price of \$1.6 million since it did not relate to the core business of the Company. As of December 31, 2012, the assets had a book value of \$734,000 and the Company had a \$1.7 million mortgage on the property at a variable rate of interest of Prime, with a floor of 6.75%, payable in monthly installments, which matured December 12, 2012. As a result of the sale, the mortgage was satisfied and a gain on the sale of assets of \$1.1 million was recorded in the three months ended March 31, 2013.



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The results of operations related to this disposal have been reclassified in the Condensed Consolidated Financial Statements as discontinued operations. There were no remaining assets or liabilities to be reported as discontinued operations as of June 30, 2014 or December 31, 2013. There were no discontinued operations for the six months ended June 30, 2014.

The following table presents the financial results of the discontinued operations for the three and six months ended June 30, 2013:

	Three months ended June 30	Six months ended June 30
In thousands, except per share data	2013	2013
Revenues	\$ -	\$ 3
Cost of revenues	(1)	12
Gross profit (loss)	1	(9)
General and administrative expenses	-	(2)
Operating income (loss)	1	(11)
Interest expense, net	-	(18)
Gain on sale of assets	-	1,052
Income from discontinued operations	1	1,023
Income per share discontinued operations basic and diluted	\$ 0.00	\$ 1.00

**Note 5 Fair Value**

The Company carries its money market funds and cash surrender value of life insurance related to its deferred compensation arrangements at fair value. The fair value of these instruments is determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its money market funds using quoted market prices, a Level 1 or an observable input, and the cash surrender value of life insurance, a Level 2 based on observable inputs primarily from the counter party. The Company's money market funds and the cash surrender value of life insurance had carrying amounts of \$1,000 and \$55,000, respectively, at both June 30, 2014 and December 31, 2013. The carrying amounts of cash equivalents, receivables and accounts payable approximate their fair value due to the short maturities of these items. The fair value, using observable inputs, of the Company's Notes and Debentures was \$244,000 and \$33,000, respectively, at both June 30, 2014 and December 31, 2013. The fair value of the Company's remaining long-term debt approximates its carrying value of \$425,000 and \$1.5 million at June 30, 2014 and December 31, 2013, respectively.

**Note 6 Inventories**

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

		June 30,	December 31,
In thousands		2014	2013
Raw materials	\$	1,300	\$ 1,789
Work-in-progress		465	398
Finished goods		576	336
	\$	2,341	\$ 2,523

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**Note 7 Warrant Liabilities**

As part of the Company's restructuring plan, see Note 3 Plan of Restructuring, the Company issued 166,600 one-year warrants (the A Warrants). The expiration date of the A Warrants was subsequently extended until September 13, 2013, at which time 161,200 unexercised A Warrants expired. Each A Warrant entitled the holder to purchase one share of the Company's Common Stock and a three-year warrant (the B Warrants), at an exercise price of \$5.00 per share. 5,400 A Warrants were exercised before the expiration, resulting in the issuance of 5,400 B Warrants. As a result of the Retop investment (see Note 10 Securities Purchase Agreement for Common Stock) and the repricing clause in the B Warrant agreement, there are now 11,250 B Warrants that each entitle the holder to purchase one share of the Company's Common Stock at an exercise price of \$6.00 per share, which expire on November 11, 2014.

In connection with the Offering, the Company issued 48,000 three-year warrants to the Placement Agent (the Placement Agent Warrants). As a result of the Retop investment (see Note 10 Securities Purchase Agreement for Common Stock) and the repricing clause in the Placement Agent Warrant agreement, there are now 100,000 Placement Agent Warrants exercisable at a price of \$6.00 per share. Upon the exercise of these Placement Agent Warrants, the Company will issue 9,600 A Warrants to the Placement Agent and upon the exercise of these A Warrants, the Company will issue 9,600 B Warrants to the Placement Agent. The aggregate number of Placement Agent Warrants, A Warrants and B Warrants to which the Placement Agent is entitled is 119,200. Each Placement Agent Warrant entitles the Placement Agent to purchase one share of the Company's Common Stock at an exercise price of \$6.00 per share and a two-year A Warrant. Each A Warrant, which would expire on November 14, 2016, would entitle the Placement Agent to purchase one share of the Company's Common Stock and a three-year B Warrant at an exercise price of \$5.00 per share. Each B Warrant, which would expire on November 14, 2017, shall entitle the Placement Agent to purchase one share of the Company's Common Stock at an exercise price of \$12.50 per share.

In connection with a private placement of \$650,000 of 4.00% notes, see Note 8 Long-Term Debt, the Company issued 40,000 warrants to the subscriber at an exercise price of \$2.50 per share, which expire on June 17, 2016.

The foregoing warrants include a potential adjustment of the strike price if the Company sells or grants any option or warrant at a price per share less than the strike price of the warrants. Therefore, these warrants are not considered indexed to the Company's Common Stock and are accounted for on a liability basis. The Company recorded non-cash expenses of \$423,000 and \$376,000 in the three and six months ended June 30, 2014, respectively, and non-cash gains of \$732,000 and \$664,000 in the three and six months ended June 30, 2013, respectively, related to changes in the value of the warrants issued in the Offering, the Placement Agent and the subscriber in connection with the \$650,000 of 4.00% secured notes, which is included in Change in warrant liabilities and other warrant expense in the Condensed Consolidated Statements of Operations.

On June 11, 2013, the Company entered into a Master Agreement for Sale and Assignment of Leases with AXIS Capital, Inc. (the Assignment Agreement ) and financed the future receivables relating to certain lease contracts. In connection with the Assignment Agreement, the Company issued warrants to purchase 7,200 shares of the Company's Common Stock, par value \$0.001, to AXIS Capital, Inc. at an exercise price of \$12.50 per share. These warrants did not include a potential adjustment of the strike price if the Company sells or grants any options or warrants at a price per share less than the strike price of the warrants, so they were considered indexed to the Company's Common Stock and were accounted for as equity. These warrants expired unexercised on June 11, 2014.

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In November 2012, the Board of Directors approved the issuance to two board members, George W. Schiele and Salvatore J. Zizza, of warrants to purchase 20,000 shares of Common Stock at an exercise price of \$12.50 per share. In April 2013, the Board of Directors approved the issuance to one board member, Jean Firstenberg, of warrants to purchase 2,000 shares of Common Stock at an exercise price of \$12.50 per share. Each of these warrant issuances was approved by shareholders at the Company's 2013 Annual Meeting of Shareholders on October 2, 2013. The warrants were issued effective October 2, 2013 and begin to vest after one year. The Company recorded non-cash expenses of \$21,000 and \$42,000 in the three and six months ended June 30, 2014, respectively, related to the value of the warrants issued, which is included in Change in warrant liabilities and other warrant expense in the Condensed Consolidated Statements of Operations. These warrants do not include a potential adjustment of the strike price if the Company sells or grants any options or warrants at a price per share less than the strike price of the warrants, so they are considered indexed to the Company's Common Stock and were accounted for as equity.

On June 27, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Retop Industrial (Hong Kong) Limited ("Retop"), pursuant to which Retop purchased 333,333 shares of the Company's Common Stock, par value \$0.001 per share, for a purchase price of \$2,000,000 (the "Purchase"). The SPA requires that the proceeds of the Purchase are to be utilized solely in connection with the Company's LED display business unit, including for working capital and general corporate purposes related thereto. In connection with the SPA, the Company has issued warrants to purchase 33,333 shares of the Company's Common Stock to Retop at an exercise price of \$8.00 per share.

## **Note 8 Long-Term Debt**

As of June 30, 2014, the Company had \$1.1 million of 8¼% Limited convertible senior subordinated notes due 2012 (the "Notes") which are no longer convertible into common shares and which matured as of March 1, 2012; interest was payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Notes the right to receive \$225, without accrued interest, plus 10 shares of the Company's Common Stock for each \$1,000 Note exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Notes. \$9.0 million of the original \$10.1 million of principal amount of the Notes have been exchanged, leaving \$1.1 million outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the March 1, 2010 and 2011 and September 1, 2010 and 2011 semi-annual interest payments of \$418,000 each and the March 1, 2012 semi-annual interest and principal payment of \$1.4 million to the trustee. The non-payments constitute an event of default under the Indenture governing the Notes. 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment of principal, premium or interest shall be made on the Notes unless and until such default

shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. If the holder of Senior Indebtedness accelerates the due date at any time, then no payment may be made until the default is cured or waived. The Notes are subordinate to all Senior Indebtedness of the Company.

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As of June 30, 2014, the Company had \$334,000 of 9½% Subordinated debentures due 2012 (the Debentures ) which matured on December 1, 2012; interest was payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Debentures the right to receive \$100, without accrued interest, for each \$1,000 Debenture exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Debentures. \$723,000 of the original \$1.1 million principal amount of the Debentures have been exchanged, leaving \$334,000 outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the December 1, 2009, 2010 and 2011 sinking fund payments of \$106,000 each, the June 1, 2010, 2011 and 2012 and the December 1, 2010 and 2011 semi-annual interest payments of \$50,000 each and the December 1, 2012 semi-annual interest and principal payment of \$790,000 to the trustee. The non-payments constitute an event of default under the Indenture governing the Debentures. 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment (including any required sinking fund payments) of principal, premium or interest shall be made on the Debentures unless and until such default shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. The Debentures are subordinate to all Senior Indebtedness of the Company.

As of June 30, 2014, the Company had a \$425,000 mortgage on its facility located in Des Moines, Iowa at a fixed rate of interest of 6.50% payable in monthly installments, which matures March 1, 2015 and requires a compensating balance of \$200,000.

As of March 31, 2014, the Company had a \$1.0 million loan from Carlisle Investments Inc. ( Carlisle ) at a fixed interest rate of 10.00%, which was due to mature on June 1, 2014 with a bullet payment of all principal and accrued interest due at such time, which maturity date was subsequently extended to July 1, 2014. On June 20, 2014, this loan was converted into shares of the Company's Common Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 166,666 shares of Common Stock to Carlisle. Marco Elser, a director of the Company, exercises voting and dispositive power as investment manager of Carlisle. In connection with the loan, the Company had granted to Carlisle a first-priority (excluding the liens held by the Pension Benefit Guaranty Corporation, which are senior to the liens and security interest granted in connection with the Loan) continuing security interest in and lien upon all assets of the Company (excluding those assets subject to the security interest granted to AXIS Capital, Inc. by the Company pursuant to that certain Master Agreement for Sale and Assignment of Leases dated as of June 2013), in accordance with the terms of a security agreement entered into between the parties and dated as of December 2, 2013. As a result of the conversion to Common Stock, the loan has been satisfied in full and the continuing security interest in and lien upon all assets of the Company have been terminated.

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During the quarter, the Company received a \$200,000 loan from George W. Schiele, a director of the Company, at a fixed interest rate of 10.00%, which was due to mature on July 1, 2014 with a bullet payment of all principal and accrued interest due at such time. On June 20, 2014, this loan was converted into shares of the Company's Common Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 33,333 shares of Common Stock to Mr. Schiele.



Table of Contents**Note 9 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 plan.

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

In thousands	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Interest cost	\$ 158	\$ 130	\$ 282	\$ 260
Expected return on plan assets	(174)	(110)	(299)	(220)
Amortization of net actuarial loss	47	121	178	242
Net periodic pension cost	\$ 31	\$ 141	\$ 161	\$ 282

As of June 30, 2014, the Company has recorded a current pension liability of \$1.5 million, which is included in Accrued liabilities in the Condensed Consolidated Balance Sheets, and a long-term pension liability of \$3.0 million, which is included in Deferred pension liability and other in the Condensed Consolidated Balance Sheets. The minimum required contribution for 2014 is expected to be \$1.4 million, of which \$600,000 is still remaining to be paid.

The pension plan asset information included below is presented at fair value. ASC 820 establishes a framework for measuring fair value and required disclosures about assets and liabilities measured at fair value. The fair values of these assets are determined using a three-tier fair value hierarchy. Based on this hierarchy, the Company determined the fair value of its mutual stock funds using quoted market prices, a Level 1 or an observable input. The Company does not have any Level 2 pension assets, in which such valuation would be based on observable inputs and quoted prices in markets that are not active, or Level 3 pension assets, in which such valuation would be based on unobservable measurements and management's estimates.

The following table presents the pension plan assets by level within the fair value hierarchy as of June 30, 2014:

In thousands		Level 1	Level 2	Level 3	Total
Mutual stock funds	\$	7,927	\$ -	\$ -	7,927
Total pension plan assets	\$	7,927	\$ -	\$ -	\$ 7,927

In March 2010, 2011 and 2013, the Company submitted to the Internal Revenue Service requests for waivers of the minimum funding standard for its defined benefit plan for the 2009, 2010 and 2012 plan years. The waiver requests were submitted as a result of the economic climate and the business hardship that the Company was experiencing. The waivers for the 2009, 2010 and 2012 plan years were approved and granted subject to certain conditions and have deferred payment of \$285,000, \$559,000 and \$871,000 of the minimum funding standard for the 2009, 2010 and 2012 plan years, respectively. If the Company does not fulfill the conditions of the waivers, the Pension Benefit Guaranty Corporation and the Internal Revenue Service have various enforcement remedies that can be implemented to protect the participant's benefits, such as termination of the plan or a requirement that the Company make the unpaid contributions. At this time, the Company is expecting to make its required contributions for 2014 and has already made \$778,000 of those contributions; however there is no assurance that the Company will be able to make any or all such remaining payments. The Pension Benefit Guaranty Corporation has placed a lien on the Company's assets in respect of amounts owed under the plan.

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**Note 10 Securities Purchase Agreement for Common Stock**

On June 27, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Retop Industrial (Hong Kong) Limited ("Retop"), pursuant to which Retop purchased 333,333 shares of the Company's Common Stock, par value \$0.001 per share, for a purchase price of \$2,000,000 (the "Purchase"). The SPA requires that the proceeds of the Purchase are to be utilized solely in connection with the Company's LED display business unit, including for working capital and general corporate purposes related thereto. In connection with the SPA, the Company has issued warrants to purchase 33,333 shares of the Company's Common Stock to Retop at an exercise price of \$8.00 per share.

**Note 11 Share-Based Compensation**

The Company accounts for all share-based payments to employees and board members, including grants of employee stock options, at fair value and expenses the benefit in the Condensed Consolidated Statements of Operations over the service period (generally the vesting period). The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes pricing valuation model, which requires various assumptions including estimating stock price volatility, expected life of the stock option, risk free interest rate and forfeiture rate.

The Company did not issue any stock options during the six months ended June 30, 2014 and 2013. There are no unrecognized compensation costs related to unvested stock options granted under the Company's stock option plans.

The following table summarizes the activity of the Company's stock options for the six months ended June 30, 2014:

	Weighted	Weighted	Aggregate
	Average	Remaining	Intrinsic
Options	Price (\$)	Term (Yrs)	Value (\$)

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Outstanding at beginning of year	60	19.58		
Granted	-	-		
Exercised	-	-		
Terminated	-	-		
Outstanding at end of period	60	19.58	1.3	
Vested and expected to vest at end of period	60	19.58	1.3	-
Exercisable at end of period	60	19.58	1.3	-

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## **Note 12 Loss Per Common Share**

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted loss per common share is computed by dividing net loss 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 June 30, 2014 and 2013, there were outstanding warrants convertible into 245,800 and 440,400 shares of Common Stock, respectively, which were excluded from the calculation of diluted loss per share because their impact would have been anti-dilutive. At both June 30, 2014 and 2013, there were outstanding stock options to purchase 60 shares of Common Stock, which were excluded from the calculation of diluted loss per share because their impact would have been anti-dilutive.

## **Note 13 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. Our former outside legal counsel had brought a claim against us for \$593,000 plus interest, which we have settled for \$600,000. Of the settlement, \$275,000 was paid in April 2014, with the remainder due in monthly installments over the next 2 years. The liability is included in Accrued liabilities on the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013.

## **Note 14 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 maker in deciding how to allocate resources and in assessing performance of the business.

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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 display sales and Digital display 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 display sales segment sells equipment and the Digital display 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.

Foreign revenues represent less than 10% of the Company's revenues for 2014 and 2013. The 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 continuing operations in its two business segments for the three and six months ended June 30, 2014 and 2013 is as follows:

In thousands	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Revenues:				
Digital display sales	\$ 4,569	\$ 3,287	\$ 9,778	\$ 5,738
Digital display lease and maintenance	1,332	1,500	2,587	3,145
Total revenues	\$ 5,901	\$ 4,787	\$ 12,365	\$ 8,883
Operating (loss) income:				
Digital display sales	\$ (1,204)	\$ (769)	\$ (934)	\$ (1,777)
Digital display lease and maintenance	(76)	81	154	343
Corporate general and administrative expenses	(721)	(370)	(1,354)	(833)
Total operating loss	(2,001)	(1,058)	(2,134)	(2,267)
Interest expense, net	(70)	(42)	(140)	(83)
Loss on sale of receivables	-	(348)	-	(348)
Change in warrant liabilities and other warrant expense	(423)	732	(376)	664

Loss from continuing operations before income taxes	(2,494)	(716)	(2,650)	(2,034)
Income tax expense	(10)	(8)	(16)	(16)
Loss from continuing operations	\$ (2,504)	\$ (724)	\$ (2,666)	\$ (2,050)

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 high resolution video 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 display sales and Digital display lease and maintenance.

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The Digital display 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 display 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**

In light of the unprecedented instability in the financial markets and the severe slowdown in the overall economy, we do not have adequate liquidity, including access to the debt and equity capital markets, to operate our business in the manner in which we have historically operated. As a result, our short-term business focus has been to preserve our liquidity position. Unless we are successful in obtaining additional liquidity, we believe that we will not have sufficient cash and liquid assets to fund normal operations for the next 12 months. In addition, the Company's obligations under its pension plan exceeded plan assets by \$4.5 million at June 30, 2014 and the Company has a significant amount due to their pension plan due over the next 12 months. In addition, the Company has not made the December 1, 2009, 2010 and 2011 required sinking fund payments on its 9 1/2% Subordinated debentures due 2012 (the "Debentures") and the June 1, 2010, 2011 and 2012 as well as its December 1, 2010, 2011 and 2012 interest payments totaling \$301,200. In addition, the Company did not make the March 1, 2010, 2011 and 2012 as well as its September 1, 2010 and 2011 interest payments totaling \$2.1 million on its 8 1/4% Limited convertible senior subordinated notes due 2012 (the "Notes"). As a result, if the Company is unable to (i) obtain additional liquidity for working capital, (ii) make the required minimum funding contributions to the pension plan, (iii) make the required sinking fund payments on the Debentures or (iv) make the required principal and interest payments on the Notes and the Debentures, there would be a significant adverse impact on the financial position and operating results of the Company.

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 issued an opinion on our December 31, 2013 Consolidated Financial Statements that states that the Consolidated Financial Statements were prepared assuming we will continue as a going concern, however the opinion 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 pension plan over the next 12 months, raises substantial doubt about our ability to continue as a going concern. See Note 2 to the Condensed Consolidated Financial Statements - Going Concern.





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The following table presents our Statements of Operations data, expressed as a percentage of revenue for the six months ended June 30, 2014 and 2013:

	2014			2013		
Revenues:						
Digital display sales	\$ 9,778	79.1 %	\$ 5,738	64.6 %		
Digital display lease and maintenance	2,587	20.9 %	3,145	35.4 %		
Total revenues	12,365	100.0 %	8,883	100.0 %		
Cost of revenues:						
Cost of digital display sales	8,015	82.0 %	4,557	79.4 %		
Cost of digital display lease and maintenance	2,049	79.2 %	2,513	79.9 %		
Total cost of revenues	10,064	81.4 %	7,070	79.6 %		
Gross profit from operations	2,301	18.6 %	1,813	20.4 %		
General and administrative expenses	(4,435)	(35.9) %	(4,031)	(45.4) %		
Restructuring costs	-	- %	(49)	(0.6) %		
Operating loss	(2,134)	(17.3) %	(2,267)	(25.5) %		
Interest expense, net	(140)	(1.1) %	(83)	(0.9) %		
Loss on sale of receivables	-	- %	(348)	(3.9) %		
Change in warrant liabilities and other warrant expense	(376)	(3.0) %	664	(7.5) %		
Loss from continuing operations before income taxes	(2,650)	(21.4) %	(2,034)	(22.9) %		
Income tax expense	(16)	(0.1) %	(16)	(0.2) %		
Loss from continuing operations	(2,666)	(21.6) %	(2,050)	(23.1) %		
Income from discontinued operations	-	- %	1,023	11.5 %		
Net loss	\$ (2,666)	(21.6) %	\$ (1,027)	(11.6) %		

**Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013**

Total revenues for the six months ended June 30, 2014 increased \$3.5 million or 39.2% to \$12.4 million from \$8.9 million for the six months ended June 30, 2013, primarily due to an increase in sales in the digital display market, offset by a decrease in digital display lease and maintenance revenues.

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Digital display sales revenues increased \$4.0 million or 70.4%, primarily due to a large individual sale in the scoreboard market, as well as increases in the catalog scoreboard and LED lighting markets.

Digital display lease and maintenance revenues decreased \$558,000 or 17.7%, 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 for the six months ended June 30, 2014 decreased \$133,000 to \$2.1 million from \$2.3 million for the six months ended June 30, 2013, principally due to the increase in revenues, offset by an increase in general and administrative expenses.

Digital display sales operating loss decreased \$843,000 to \$934,000 for the six months ended June 30, 2014 compared to \$1.8 million for the six months ended June 30, 2013, primarily as a result of the increase in revenues and a decrease in general and administrative expenses. The cost of Digital display sales increased \$3.5 million or 75.9%, primarily due to the increase in revenues. The cost of Digital display sales represented 82.0% of related revenues in 2014 compared to 79.4% in 2013.

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Digital display sales general and administrative expenses decreased \$261,000 or 8.8%, primarily due to a decrease in payroll and benefits.

Digital display lease and maintenance operating income decreased \$189,000 or 55.1%, primarily as a result of the decrease in revenues and an increase in general and administrative expenses. The cost of Digital display lease and maintenance decreased \$464,000 or 18.5%, primarily due to a \$243,000 decrease in depreciation expense and a \$221,000 decrease in field service costs to maintain the displays. The cost of Digital display lease and maintenance revenues represented 79.2% of related revenues in 2014 compared to 79.9% in 2013. The cost of Digital display lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital display lease and maintenance general and administrative expenses increased \$95,000, primarily due to an increase in bad debt expense, offset by a decrease in payroll and benefits.

Corporate general and administrative expenses increased \$521,000 or 62.5%, primarily due to a \$30,000 loss on Canadian currency exchange in 2014 compared to a gain of \$184,000 on Canadian currency exchange in 2013, and an increase in payroll and benefits.

Net interest expense increased \$57,000 or 68.7%, primarily due to higher borrowing rates on the long-term debt.

The change in warrant liabilities and other warrant expense is attributable mainly to the change in the fair market value of the warrants. See Note 7 to the Condensed Consolidated Financial Statements Warrant Liabilities.

The effective tax rate for the six months ended June 30, 2014 and 2013 was 0.6% and 0.8%, respectively. Both the 2014 and 2013 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses. The income tax expense relates to the Company's Canadian subsidiary.

## **Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013**

Total revenues for the three months ended June 30, 2014 increased \$1.1 million or 23.3% to \$5.9 million from \$4.8 million for the three months ended June 30, 2013, primarily due to an increase in sales in the digital display market, offset by a decrease in digital display lease and maintenance revenues.

Digital display sales revenues increased \$1.3 million or 39.0%, primarily due to increases in the catalog scoreboard and LED lighting markets.

Digital display lease and maintenance revenues decreased \$168,000 or 11.2%, 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 for the three months ended June 30, 2014 increased \$943,000 to \$2.0 million from \$1.1 million for the three months ended June 30, 2013, principally due to an increase in the cost of revenues and an increase in general and administrative expenses.

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Digital display sales operating loss increased \$435,000 to \$1.2 million for the three months ended June 30, 2014 compared to \$769,000 for the three months ended June 30, 2013, primarily as a result of an the increase in the cost of revenues. The cost of Digital display sales increased \$1.7 million or 69.2%, primarily due to the increase in revenues. The cost of Digital display sales represented 91.7% of related revenues in 2014 compared to 75.4% in 2013. The three months ended June 30, 2014 contained some trailing costs for projects completed during the three months ended March 31, 2014. Digital display sales general and administrative expenses remained level.

Digital display lease and maintenance operating income decreased \$157,000, primarily as a result of the decrease in revenues and an increase in general and administrative expenses. The cost of Digital display lease and maintenance decreased \$224,000 or 17.9%, primarily due to a \$120,000 decrease in depreciation expense and a \$104,000 decrease in field service costs to maintain the displays. The cost of Digital display lease and maintenance revenues represented 76.9% of related revenues in 2014 compared to 83.2% in 2013. The cost of Digital display lease and maintenance includes field service expenses, plant repair costs, maintenance and depreciation. Digital display lease and maintenance general and administrative expenses increased \$213,000, primarily due to an increase in bad debt expense.

Corporate general and administrative expenses increased \$351,000, primarily due to a \$132,000 loss on Canadian currency exchange in 2014 compared to a gain of \$103,000 on Canadian currency exchange in 2013, and an increase in payroll and benefits.

Net interest expense increased \$28,000 or 66.7%, primarily due to higher borrowing rates on the long-term debt.

The change in warrant liabilities and other warrant expense is attributable mainly to the change in the fair market value of the warrants. See Note 7 to the Condensed Consolidated Financial Statements Warrant Liabilities.

The effective tax rate for the three months ended June 30, 2014 and 2013 was 0.4% and 1.1%, respectively. Both the 2014 and 2013 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses. The income tax expense relates to the Company's Canadian subsidiary.

## **Liquidity and Capital Resources**

## Current Liquidity

While the Company has improved operations and reduced operating losses, in prior years the Company has incurred significant recurring losses from continuing operations and continues to have a significant working capital deficiency. The Company incurred a net loss from continuing operations of \$2.7 million in the six months ended June 30, 2014 and had a working capital deficiency of \$4.7 million as of June 30, 2014. The 2014 results include a \$376,000 expense for marking warrants to market value. See Note 7 to the Condensed Consolidated Financial Statements Warrant Liabilities.

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The Company is dependent on future operating performance in order to generate sufficient cash flows in order to continue to run its businesses. Future operating performance is dependent on general economic conditions, as well as financial, competitive and other factors beyond our control. 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 in these challenging economic times, 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 continuing 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 continually evaluates the need and availability of long-term capital in order to meet its cash requirements and fund potential new opportunities.

The Company used cash in operating activities of continuing operations of \$83,000 for the six months ended June 30, 2014 and \$584,000 for the six months ended June 30, 2013. 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 its human resources department 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 displays on lease and maintenance agreements.

Cash and cash equivalents increased \$2.1 million in the six months ended June 30, 2014. The increase is primarily attributable to proceeds from the issuance of restricted stock and warrants of \$2.2 million, offset by cash used in operating activities of continuing operations of \$83,000, scheduled payments of long-term debt of \$30,000, investment in equipment manufactured for rental of \$19,000 and investment in property and equipment of \$2,000. 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. Cash and cash equivalents decreased \$1.0 million in the six months ended June 30, 2013. The decrease is primarily attributable to cash used in operating activities of continuing operations of \$584,000, payments on the revolving loan with the senior lender under the Credit Agreement of \$1.0 million, investment in equipment manufactured for rental of \$57,000 and investment in property, plant and equipment of \$185,000 and scheduled payments of long term debt of \$28,000, offset by cash provided by proceeds from the receivables financing of \$887,000.

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, employment and consulting 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 2014 until the underlying debts mature.





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The following table summarizes the Company's fixed cash obligations as of June 30, 2014 for the remainder of 2014 and over the next four fiscal years:

In thousands	Remainder of				2018 and thereafter
	2014	2015	2016	2017	
Current and long-term debt, including interest	\$ 2,115	\$ 400	\$ -	\$ -	\$ -
Pension plan payments	880	920	862	699	482
Employment agreement obligations	211	184	61	-	-
Estimated warranty liability	55	86	67	49	37
Operating lease payments	198	411	362	205	-
Total	\$ 3,459	\$ 2,001	\$ 1,352	\$ 953	\$ 519

Of these fixed cash obligations, the Company continues to consider further exchanges of the \$2.0 million, including interest, of remaining Notes and Debentures for an aggregate amount of \$277,000, as discussed in the Restructuring Plan and Preferred Stock Offering section below. Subsequent to June 30, 2014, the Company made its regularly scheduled quarterly contribution of \$280,000 to the Company's pension plan. 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.

**Receivables Financing**

On June 11, 2013, the Company entered into a Master Agreement for Sale and Assignment of Leases with AXIS Capital, Inc. (the Assignment Agreement) and financed the future receivables relating to certain lease contracts. As a result of the transaction, the Company received net proceeds of \$887,000. The funds were used to pay off the balance due on the Credit Agreement and to make a payment to the Company's pension plan. The Credit Agreement has been satisfied in full and the liens held by the senior lender on the collateral in connection therewith have been terminated. A security interest was granted on the rental equipment underlying the lease contract receivables sold to AXIS Capital, Inc. by the Company pursuant to the Assignment Agreement. In connection with the Assignment Agreement, the Company has issued warrants to purchase 7,200 shares of the Company's Common Stock, par value \$0.001, to AXIS Capital, Inc. at an exercise price of \$12.50 per share. On June 11, 2014, these warrants expired unexercised.



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On July 12, 2013, the Company's subsidiary, Trans-Lux Midwest Corporation ( Midwest ), entered into a Purchase and Sale Agreement (the Agreement ) with Prestige Capital Corporation ( Prestige ), in order to provide financing to the Company. Under the Agreement, Midwest sold certain account receivables (the Accounts ) to Prestige. Prestige advanced 75% of the face value of the Accounts to Midwest, up to a maximum advance of \$2.5 million, with the remainder to be credited to Midwest upon final collection at a discount fee based on the number of days such Accounts remain outstanding. Under the Agreement, Midwest has granted to Prestige a continuing security interest in and lien upon all accounts and property of Midwest at any time in Prestige's possession. The Agreement was for a one year term, and thereafter automatically extends for successive one year periods unless cancelled by either party upon 60 days notice. The Agreement may also be terminated earlier by Prestige upon 60 days prior notice to Midwest, or by Prestige in the event of a breach of the Agreement or upon the insolvency of Midwest or the Company. Upon the termination of the Agreement in the event of a breach or insolvency event, all of Midwest's obligations to Prestige shall become immediately due and payable. In the event Midwest wishes to terminate the Agreement during the term of the Agreement, Midwest must pay an early termination fee equal to \$7,500 per month for each month remaining under any applicable term, however, Prestige has agreed to waive such termination fee in the event Midwest terminates the Agreement at any time after the initial six months of the term of the Agreement. The Company has guaranteed Midwest's obligations under the Agreement pursuant to a Guaranty executed by the Company as of July 12, 2013. As of June 30, 2014, net proceeds of approximately \$1.5 million were advanced from Prestige. The funds were used to make payments to the Company's pension plan and for working capital purposes. On July 14, 2014, the Agreement was terminated, all obligations have been satisfied and all liens have been dismissed.

## **Other Current and Long-Term Debt**

As of March 31, 2014, the Company had a \$1.0 million loan from Carlisle Investments Inc. ( Carlisle ) at a fixed interest rate of 10.00%, which was due to mature on June 1, 2014 with a bullet payment of all principal and accrued interest due at such time, which maturity date was subsequently extended to July 1, 2014. On June 20, 2014, this loan was converted into shares of the Company's Common Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 166,666 shares of Common Stock to Carlisle. Marco Elser, a director of the Company, exercises voting and dispositive power as investment manager of Carlisle. In connection with the loan, the Company had granted to Carlisle a first-priority (excluding the liens held by the Pension Benefit Guaranty Corporation, which are senior to the liens and security interest granted in connection with the Loan) continuing security interest in and lien upon all assets of the Company (excluding those assets subject to the security interest granted to AXIS Capital, Inc. by the Company pursuant to that certain Master Agreement for Sale and Assignment of Leases dated as of June 2013), in accordance with the terms of a security agreement entered into between the parties and dated as of December 2, 2013. As a result of the conversion to Common Stock, the loan has been satisfied in full and the continuing security interest in and lien upon all assets of the Company have been terminated.

During the quarter, the Company received a \$200,000 loan from George W. Schiele, a director of the Company, at a fixed interest rate of 10.00%, which was due to mature on July 1, 2014 with a bullet payment of all principal and accrued interest due at such time. On June 20, 2014, this loan was converted into shares of the Company's Common

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Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 33,333 shares of Common Stock to Mr. Schiele.

The Company has a \$425,000 mortgage on its facility located in Des Moines, Iowa at a fixed interest rate of 6.50% payable in monthly installments, which matures March 1, 2015.

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**Restructuring Plan and Preferred Stock Offering**

The Company has \$1.1 million of 8¼% Limited convertible senior subordinated notes due 2012 (the Notes ) which are no longer convertible into common shares and which matured as of March 1, 2012; interest was payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Notes the right to receive \$225, without accrued interest, plus 10 shares of the Company's Common Stock for each \$1,000 Note exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Notes. \$9.0 million of the original \$10.1 million of principal amount of the Notes have been exchanged, leaving \$1.1 million outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the March 1, 2010 and 2011 and September 1, 2010 and 2011 semi-annual interest payments of \$418,000 each and the March 1, 2012 semi-annual interest and principal payment of \$1.4 million to the trustee. The non-payments constitute an event of default under the Indenture governing the Notes. 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment of principal, premium or interest shall be made on the Notes unless and until such default shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. If the holder of Senior Indebtedness accelerates the due date at any time, then no payment may be made until the default is cured or waived. Such actions could require the disposition of some or all of our assets, which could require us to curtail or cease operations. The Notes are subordinate to all Senior Indebtedness of the Company.

The Company has \$334,000 of 9½% Subordinated debentures due 2012 (the Debentures ) which matured on December 1, 2012; interest was payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Debentures the right to receive \$100, without accrued interest, for each \$1,000 Debenture exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Debentures. \$723,000 of the original \$1.1 million principal amount of the Debentures have been exchanged, leaving \$334,000 outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the December 1, 2009, 2010 and 2011 sinking fund payments of \$106,000 each, the June 1, 2010, 2011 and 2012 and the December 1, 2010 and 2011 semi-annual interest payments of \$50,000 each and the December 1, 2012 semi-annual interest and principal payment of \$790,000 to the trustee. The non-payments constitute an event of default under the Indenture governing the Debentures. 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment (including any required sinking fund payments) of principal, premium or interest shall be

made on the Debentures unless and until such default shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. Such actions could require the disposition of some or all of our assets, which could require us to curtail or cease operations. The Debentures are subordinate to all Senior Indebtedness of the Company.

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The Company has implemented a comprehensive restructuring plan which included the offers to the holders of the Notes and Debentures noted above in 2011. The Company issued 90,000 shares of Common Stock in exchange for the Notes. No Notes or Debentures were exchanged in the six months ended June 30, 2014 or June 30, 2013.

As part of the restructuring plan, on November 14, 2011, the Company completed the sale of an aggregate of \$8.3 million of securities (the Offering) consisting of (i) 416,500 shares of the Company's Series A Convertible Preferred Stock, par value \$1.00 per share (the Preferred Stock), having a stated value of \$20.00 per share, which converted into 833,000 shares of the Company's Common Stock, par value \$0.001 per share, and (ii) 166,600 one-year warrants (the A Warrants). These securities were organized into units, and were issued at a purchase price of \$20,000 per unit (the Units). Each Unit consisted of 1,000 shares of the Company's Preferred Stock, which converted into 2,000 shares of the Company's Common Stock, and 400 A Warrants. The expiration date of the A Warrants was subsequently extended until September 13, 2013, at which time 161,200 unexercised A Warrants expired. Each A Warrant entitled the holder to purchase one share of the Company's Common Stock and a three-year warrant (the B Warrants), at an exercise price of \$5.00 per share. 5,400 A Warrants were exercised before the expiration, resulting in the issuance of 5,400 B Warrants. As a result of the Retop investment (see Note 10 to the Condensed Consolidated Financial Statements Securities Purchase Agreement for Common Stock) and the repricing clause in the B Warrant agreement, there are now 11,250 B Warrants that each entitle the holder to purchase one share of the Company's Common Stock at an exercise price of \$6.00 per share, which expire on November 11, 2014.

The net proceeds of the Offering in 2011 were used to fund the restructuring of the Company's outstanding debt, which included: (1) a cash settlement to holders of the Notes in the amount of \$2.0 million; (2) a cash settlement to holders of the Debentures in the amount of \$72,000; (3) payment of the balance of the Company's outstanding term loan with the senior lender in the amount of \$321,000 and (4) payment of \$1.0 million on the Company's outstanding revolving loan with the senior lender under the Credit Agreement. The net proceeds of the Offering remaining after payment to holders of the Notes and the Debentures and the senior lender were used to pay the remaining \$3.0 million outstanding under the revolving loan with the senior lender under the Credit Agreement and for working capital.

## **Pension Plan Contributions**

In March 2010, 2011 and 2013, the Company submitted to the Internal Revenue Service requests for waivers of the 2009, 2010 and 2012 minimum funding standards for its defined benefit plan. The waiver requests were submitted as a result of the economic climate and the business hardship that the Company experienced. The 2009, 2010 and 2012 waivers were approved and granted subject to certain conditions, and have deferred payment of \$285,000, \$559,000 and \$871,000 of the minimum funding standard for the 2009, 2010 and 2012 plan years, respectively. If the Company does not fulfill the conditions of the waivers, the Pension Benefit Guaranty Corporation and the Internal Revenue



Service have various enforcement remedies that can be implemented to protect the participant's benefits, such as termination of the plan or a requirement that the Company make the unpaid contributions. At this time, the Company is expecting to make its required contributions for 2014 and has already made \$778,000 of those contributions; however there is no assurance that the Company will be able to make any or all such remaining payments. The Pension Benefit Guaranty Corporation has placed a lien on the Company's assets in respect of amounts owed under the plan.

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**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 5 to the Condensed Consolidated Financial Statements – Fair Value. At June 30, 2014, the Company did not have any variable interest rate debt. 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 exchange expense fluctuation of approximately \$304,000, based on dealer quotes, considering current exchange rates. The Company does not enter into derivatives for trading or speculative purposes. At June 30, 2014, the Company did not hold any derivative financial instruments.

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 Financial 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 Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management (including our Chief Executive Officer and Chief Financial

Officer) to allow timely decisions regarding required disclosures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls are effective as of June 30, 2014.

*Changes in Internal Control over Financial Reporting.* There has been no change in the Company's internal control over financial reporting that occurred in the quarter ended June 30, 2014 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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. Our former outside legal counsel had brought a claim against us for \$593,000 plus interest, which we have settled for \$600,000. Of the settlement, \$275,000 was paid in April 2014, with the remainder due in monthly installments over the next 2 years. The liability is included in Accrued liabilities on the Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013.

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, 2013. There have been no material changes to those previously disclosed risk factors.

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

On June 27, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Retop Industrial (Hong Kong) Limited ("Retop"), pursuant to which Retop purchased 333,333 shares of the Company's Common Stock, par value \$0.001 per share, for a purchase price of \$2,000,000 (the "Purchase"). The SPA requires that the proceeds of the Purchase are to be utilized solely in connection with the Company's LED display business unit, including for working capital and general corporate purposes related thereto.

As of March 31, 2014, the Company had a \$1.0 million loan from Carlisle Investments Inc. ("Carlisle") at a fixed interest rate of 10.00%, which was due to mature on June 1, 2014 with a bullet payment of all principal and accrued

interest due at such time, which maturity date was subsequently extended to July 1, 2014. On June 20, 2014, this loan was converted into shares of the Company's Common Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 166,666 shares of Common Stock to Carlisle. Marco Elser, a director of the Company, exercises voting and dispositive power as investment manager of Carlisle. As a result of the conversion to Common Stock, the loan has been satisfied in full. The proceeds of this transaction are being used for working capital and general corporate purposes.

During the quarter, the Company received a \$200,000 loan from George W. Schiele, a director of the Company, at a fixed interest rate of 10.00%, which was due to mature on July 1, 2014 with a bullet payment of all principal and accrued interest due at such time. On June 20, 2014, this loan was converted into shares of the Company's Common Stock at an exchange rate of 1 share for every \$6.00 of principal, resulting in the issuance of 33,333 shares of Common Stock to Mr. Schiele. The proceeds of this investment are being used for working capital and general corporate purposes.

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## Item 3. Defaults upon Senior Securities

As disclosed in Note 8 to the Condensed Consolidated Financial Statements Long-Term Debt, the Company has \$1.1 million of 8¼% Limited convertible senior subordinated notes due 2012 (the Notes) which are no longer convertible into common shares; interest was payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Notes the right to receive \$225, without accrued interest, plus 10 shares of the Company's Common Stock for each \$1,000 Note exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Notes. \$9.0 million of the original \$10.1 million of principal amount of the Notes have been exchanged, leaving \$1.1 million outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the March 1, 2010 and 2011 and September 1, 2010 and 2011 semi-annual interest payments of \$417,800 each and the March 1, 2012 semi-annual interest and principal payment of \$1.4 million to the trustee. The non-payments constitute an event of default under the Indenture governing the Notes and 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment (including any required sinking fund payments) of principal, premium or interest shall be made on the Notes unless and until such default shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. If the holder of Senior Indebtedness accelerates the due date at any time, then no payment may be made until the default is cured or waived. Such actions could require the disposition of some or all of our assets, which could require us to curtail or cease operations. The Notes are subordinate to all Senior Indebtedness of the Company. At June 30, 2014 and December 31, 2013, the total principal amount outstanding under the Notes is classified as Current portion of long-term debt in the Condensed Consolidated Balance Sheets.

As disclosed in Note 8 to the Condensed Consolidated Financial Statements Long-Term Debt, the Company has \$0.3 million of 9½% Subordinated debentures due 2012 (the Debentures) which were due in annual sinking fund payments of \$105,700 beginning in 2009, which payments have not been remitted by the Company, with the remainder due in 2012; interest is payable semi-annually. As part of the Company's restructuring plan, the Company offered the holders of the Debentures the right to receive \$100, without accrued interest, for each \$1,000 Debenture exchanged. The offer expired on October 31, 2011, but the Company continues to consider further exchanges of the Debentures. \$723,000 of the original \$1.1 million principal amount of the Debentures have been exchanged, leaving \$334,000 outstanding. Based on the payment schedule prior to the offer to exchange, the Company had not remitted the June 1, 2010, 2011 and 2012 and December 1, 2010 and 2011 semi-annual interest payments of \$50,200 each and the December 1, 2012 semi-annual interest and principal payment of \$790,000 to the trustee. The non-payments constitute an event of default under the Indenture governing the Debentures and 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. During the continuation of any event which, with notice or lapse of time or both, would constitute a default under any agreement under which Senior Indebtedness is issued, if the effect of such default is to cause, or permit the holder of Senior Indebtedness to become due prior to its stated maturity, no payment of principal, premium or interest shall be made on the Debentures unless and until such default shall have been remedied, if written notice of such default has been given to the trustee by the Company or the holder of Senior Indebtedness. Such actions could require the disposition of some or all of our assets, which could require us to curtail or cease operations. The Debentures are subordinate to the Notes and all Senior Indebtedness of the Company. At June 30, 2014 and December 31, 2013, the total principal amount outstanding under the Debentures is classified as Current portion of long-term debt in the Condensed Consolidated Balance Sheets.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

The Company entered into a sublease dated as of August 6, 2014 with Mizuho Securities USA Inc. through November 30, 2017 and will relocate its headquarters to 445 Park Avenue, Suite 2001, New York, NY. The sublease is still pending approval by the landlord. In accordance with the sublease, a letter of credit was provided as the security deposit.

Item 6. Exhibits

3.2(a) Amendment to the Amended and Restated Certificate of Incorporation.

3.2(b) Amendment to the Amended and Restated Certificate of Incorporation.

3.2(c) Amendment to the Amended and Restated Certificate of Incorporation.

10.1 Employment agreement with David Pavlik dated May 27, 2014.

10.2 Sublease agreement with Mizuho Securities USA Inc. dated as of August 6, 2014.



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31.1 Certification of Jean-Marc Allain, 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.

31.2 Certification of Robert J. Conologue, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Jean-Marc Allain, 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.

32.2 Certification of Robert J. Conologue, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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/ Robert J. Conologue  
Robert J. Conologue  
Chief Financial Officer

by /s/ Todd Dupee  
Todd Dupee  
Vice President and Controller

Date: August 14, 2014