

Edgar Filing: TRANS LUX CORP - Form 10-Q

TRANS LUX CORP
Form 10-Q
August 14, 2006

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

Commission file number 1-2257

TRANS-LUX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 13-1394750

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

110 Richards Avenue, Norwalk, CT 06856-5090

(Address of principal executive offices) (Zip code)

(203) 853-4321

(Registrant's telephone number, including area code)

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

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

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

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

Date	Class	Shares Outstanding
-----	-----	-----
08/11/06	Common Stock - \$1.00 Par Value	973,598
08/11/06	Class B Stock - \$1.00 Par Value (Immediately convertible into a like number of shares of Common Stock.)	286,814

Edgar Filing: TRANS LUX CORP - Form 10-Q

TRANS-LUX CORPORATION AND SUBSIDIARIES

Table of Contents

	Page No. -----
Part I - Financial Information (unaudited)	
Item 1. Condensed Consolidated Balance Sheets - June 30, 2006 and December 31, 2005 (audited)	1
Condensed Consolidated Statements of Operations - Three and Six Months Ended June 30, 2006 and 2005	2
Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2006 and 2005	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures about Market Risk	15
Item 4. Controls and Procedures	16
Part II - Other Information	
Item 1A. Risk Factors	16
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits	18
Signatures	18
Exhibits	

Part I - Financial Information

TRANS-LUX CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except share data	June 30 2006	December 31 2005
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,573	\$ 13,610

Edgar Filing: TRANS LUX CORP - Form 10-Q

Available-for-sale securities	176	431
Receivables, less allowance of \$1,055 - 2006 and \$935 - 2005	6,921	6,321
Unbilled receivables	1,000	842
Inventories	5,911	5,658
Prepays and other	1,329	1,149
	-----	-----
Total current assets	19,910	28,011
	-----	-----
Rental equipment	93,787	91,648
Less accumulated depreciation	60,133	56,280
	-----	-----
	33,654	35,368
	-----	-----
Property, plant and equipment	39,421	39,188
Less accumulated depreciation	10,599	9,850
	-----	-----
	28,822	29,338
Goodwill	1,004	1,004
Other assets	6,329	6,829
	-----	-----
TOTAL ASSETS	\$89,719	\$100,550
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,738	\$ 2,821
Accrued liabilities	6,762	6,986
Current portion of long-term debt	2,174	14,145
	-----	-----
Total current liabilities	11,674	23,952
	-----	-----
Long-term debt:		
8 1/4% limited convertible senior subordinated notes due 2012	17,976	17,868
9 1/2% subordinated debentures due 2012	1,057	1,057
Notes payable	33,137	29,440
	-----	-----
	52,170	48,365
Deferred credits, deposits and other	2,566	2,859
Deferred income taxes	2,300	2,978
Stockholders' equity:		
Capital stock		
Common - \$1 par value - 5,500,000 shares authorized, 2,453,591 shares issued in 2006 and 2005	2,453	2,453
Class B - \$1 par value - 1,000,000 shares authorized, 286,814 shares issued in 2006 and 2005	287	287
Additional paid-in-capital	13,903	13,901
Retained earnings	17,374	18,883
Accumulated other comprehensive loss	(1,167)	(1,287)
	-----	-----
	32,850	34,237
Less treasury stock - at cost - 1,480,045 shares in 2006 and 2005 (excludes additional 286,814 shares held in 2006 and 2005 for conversion of Class B stock)	11,841	11,841
	-----	-----
Total stockholders' equity	21,009	22,396
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$89,719	\$100,550
	=====	=====

Edgar Filing: TRANS LUX CORP - Form 10-Q

1

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

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
In thousands, except per share data	2006	2005	2006	2005
Revenues:				
Equipment rentals and maintenance	\$ 3,487	\$ 3,830	\$ 7,007	\$ 7,605
Equipment sales	6,790	6,299	11,790	11,112
Theatre receipts and other	3,432	3,335	6,522	6,396
Total revenues	13,709	13,464	25,319	25,113
Operating expenses:				
Cost of equipment rentals and maintenance	2,949	3,146	5,908	6,191
Cost of equipment sales	4,958	4,221	8,726	7,488
Cost of theatre receipts and other	2,455	2,447	4,615	4,647
Total operating expenses	10,362	9,814	19,249	18,326
Gross profit from operations	3,347	3,650	6,070	6,787
General and administrative expenses	(3,102)	(3,631)	(6,480)	(6,621)
Interest income	136	155	201	201
Interest expense	(1,160)	(1,048)	(2,288)	(2,040)
Gain on sale of assets	-	108	-	108
Other income	19	27	18	52
Loss from operations before income from joint venture and income taxes	(760)	(739)	(2,479)	(1,513)
Income from joint venture	129	89	203	179
Income tax benefit	238	249	810	511
Net loss	\$ (393)	\$ (401)	\$ (1,466)	\$ (823)
Loss per share - basic	\$ (0.31)	\$ (0.32)	\$ (1.16)	\$ (0.65)
Average common shares outstanding - basic	1,260	1,261	1,260	1,261
Cash dividends per share:				
Common stock	\$ -	\$ 0.035	\$ 0.035	\$ 0.070
Class B stock	\$ -	\$ 0.0315	\$ 0.0315	\$ 0.0630

2

Edgar Filing: TRANS LUX CORP - Form 10-Q

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

In thousands	SIX MONTHS ENDED	
	JUNE 30	
	2006	2005
Cash flows from operating activities		
Net loss	\$ (1,466)	\$ 4,000
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,770	4,000
Income from joint venture	(203)	
Deferred income taxes	(684)	
Gain on sale of assets	-	
Loss (gain) on sale of available-for-sale securities	15	
Changes in operating assets and liabilities:		
Receivables	(758)	
Inventories	(253)	
Prepays and other assets	(423)	
Accounts payable and accruals	(196)	(1,000)
Deferred credits, deposits and other	(293)	
Net cash provided by operating activities	509	1,000
Cash flows from investing activities		
Equipment manufactured for rental	(2,139)	(1,000)
Purchases of property, plant and equipment	(233)	
Purchases of available-for-sale securities	-	
Proceeds from sale of available-for-sale securities	257	
Proceeds from joint venture, net	778	
Proceeds from sale of assets	-	
Net cash used in investing activities	(1,337)	(2,000)
Cash flows from financing activities		
Proceeds from long-term debt	6,250	
Payments of long-term debt	(14,416)	
Cash dividends	(43)	
Purchase of treasury stock	-	
Net cash (used in) provided by financing activities	(8,209)	
Net decrease in cash and cash equivalents	(9,037)	
Cash and cash equivalents at beginning of year	13,610	12,000
Cash and cash equivalents at end of period	\$ 4,573	\$ 11,000
Interest paid	\$ 2,282	\$ 1,000
Income taxes paid	164	

TRANS-LUX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(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 consolidated financial statements for the interim periods. The results for the interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and therefore do not include all information and footnote disclosures required under accounting principles generally accepted in the United States of America. It is suggested that the June 30, 2006 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, 2005.

The Company has incurred losses for the three and six months ended June 30, 2006 of \$393,000 and \$1,466,000, respectively, and \$1,793,000 for the year ended December 31, 2005. However, the Company does have positive working capital of \$8.2 million as of June 30, 2006 and a positive cash flow from operations for the six months ended June 30, 2006 of \$509,000. Management believes that its current cash resources will be sufficient to fund its operations and its current obligations through June 30, 2007.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes standards that require companies to record the cost resulting from all share-based payment transactions using the fair value method. Transition under SFAS 123(R) requires using a modified version of prospective application under which compensation costs are recognized over the remaining service period for all unvested share-based payments outstanding or a modified retrospective method under which all prior periods impacted by SFAS 123 are restated. Effective January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective transition method, whereby compensation costs are recognized in the consolidated statements of operations in the period beginning in January 1, 2006. Accordingly, compensation cost amounts for prior periods are presented in the Company's footnotes but the consolidated financial statements have not been restated to reflect, and do not retroactively include, the impact of SFAS 123(R). Stock-based compensation expense related to stock options recognized under SFAS 123(R) for the six months ended June 30, 2006 was approximately \$2,000, net of tax. See Note 5 - Stock Option Plans, for additional disclosures.

Note 2 - Inventories

Inventories consist of the following:

Edgar Filing: TRANS LUX CORP - Form 10-Q

In thousands	June 30 2006	December 31 2005
Raw materials	\$3,820	\$3,740
Work-in-progress	1,437	1,411
Finished goods	654	507
	\$5,911	\$5,658
	=====	=====

Note 3 - Long-Term Debt

During the six months ended June 30, 2006, long-term debt, including current portion, decreased \$8.2 million. On June 15, 2006, the Company redeemed all of its \$12.2 million 7 1/2% Convertible Subordinated Notes due December 1, 2006 (the "7 1/2% Notes"). The 7 1/2% Notes were convertible at the option of the holder into shares of Common Stock, \$1 par value per share, of the Company at any time prior to the close of business on the June 14, 2006 at the rate of \$14.013 per share, which conversion rate was substantially above the current market price of the Common Stock. The Company utilized \$6.1 million of its non-revolving line of credit to finance one-half of the redemption of the 7 1/2% Notes and utilized \$6.1 million of cash for the remaining one-half. Also during the six months ended June 30, 2006, the Company repaid \$1.2 million of its revolving loan facility and made regularly scheduled payments of long-term debt, offset by \$150,000 from the State of Iowa and City of Des Moines as a zero percent interest loan for a five year term.

The Company has a bank Credit Agreement, which provides for a term loan of \$10.0 million, a non-revolving line of credit of up to \$6.2 million to finance purchases and/or redemptions of one-half of the 7 1/2% Notes, and a revolving loan of up to \$5.0 million at variable interest rates ranging from LIBOR plus 2.25% to Prime (ranging from 6.85% to 8.25% at June 30, 2006). The Credit Agreement matures on January 1, 2008. The non-revolving line of credit is convertible into a four-year amortizing term loan on December 31, 2006 and matures January 1, 2008. At June 30, 2006, \$6.1 million of the non-revolving line of credit was outstanding and \$3.8 million of the revolving loan was outstanding, leaving \$1.2 million available under the revolving loan facility. The Credit Agreement requires an annual facility fee on the unused commitment of 0.25%, and requires compliance with certain financial covenants, which include a fixed charge coverage ratio of 1.1 to 1.0 through June 30, 2006 and 1.2 to 1.0 for quarters ending September 30, 2006 and thereafter, a loan-to-value ratio of not more than 50%, a leverage ratio of 3.0 to 1.0, a cap on capital expenditures and maintaining accounts with an average monthly compensating balance of not less than \$750,000. At June 30, 2006, the Company was in compliance with the forgoing financial covenants; but the Company was not in compliance with its minimum tangible net worth of not less than \$19.0 million, which its senior lender has waived at June 30, 2006.

On March 13, 2006, the Company completed an offer to exchange \$1,000 principal amount of its 8 1/4% Limited Convertible Senior Subordinated Notes due 2012 (the "8 1/4% Notes") for each \$1,000 principal amount of its 7 1/2% Notes. The exchange offer commenced February 6, 2006 and expired on March 13, 2006. A total of \$0.1 million principal amount of 7 1/2% Notes were exchanged, leaving \$12.2 million principal amount of 7 1/2% Notes outstanding, which were subsequently redeemed. The 8 1/4% Notes provide for a higher interest rate, which is payable semi-annually, have a longer term, are convertible into Common Stock at a lower conversion price of \$9.00 per share until March 1, 2007, may be redeemed by the Company, in whole or in part, at declining premiums beginning March 1, 2006, and are senior to the 7 1/2% Notes and the Company's 9 1/2%

Edgar Filing: TRANS LUX CORP - Form 10-Q

Subordinated Debentures (the "Debentures") due 2012.

Note 4 - Reporting Comprehensive Loss

Total comprehensive loss for the three and six months ended June 30, 2006 and 2005 is as follows:

In thousands	Three months ended June 30 2006	2005	Six mon 200
Net loss	\$ (393)	\$ (401)	\$ (1,46
Other comprehensive income (loss):			
Unrealized foreign currency translation gain (loss)	124	(24)	11
Unrealized holding gain (loss) on securities	10	7	1
Income taxes related to other comprehensive income (loss) items	(4)	(3)	(
Total other comprehensive income (loss), net of tax	130	(20)	12
Comprehensive loss	\$ (263)	\$ (421)	\$ (1,34

Note 5 - Stock Option Plans

Effective January 1, 2006, the Company adopted the provisions of SFAS 123(R), which establishes the accounting for stock-based awards exchanged for employee services. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be measured at fair value and expensed in the consolidated statement of operations over the service period (generally the vesting period). The Company previously accounted for share-based compensation plans under APB 25 and the related interpretations and provided the required SFAS 123 pro forma disclosures for employee stock options.

The following summarizes the activity of the Company's stock options for the six months ended June 30, 2006:

	Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Outstanding at beginning of year	71,300	6.10		
Granted	-			
Exercised	-			
Terminated	(500)	5.38		
Outstanding at end of period	70,800	6.11	4.5	
Vested and expected to vest at end of period	70,800	6.11	4.5	205,000

Edgar Filing: TRANS LUX CORP - Form 10-Q

Exercisable at end of period	68,800	6.11	4.5	199,000
	=====		===	=====

As of June 30, 2006, there was \$1,000 of total unrecognized compensation cost related to non-vested options granted under the Plans. That cost will be recognized in the third quarter of 2006.

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

Prior to the adoption of SFAS 123(R), the Company provided the disclosures required under SFAS 123. The Company did not recognize stock option-based compensation cost in our consolidated statements of operations for the periods prior to the adoption of SFAS 123(R), as all options granted had an exercise price equal to the market price of our common stock on the date of grant.

The following table illustrates the effect on net loss and loss per share for the three and six months ended June 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

In thousands, except per share data	Three months ended June 30, 2005	Six months ended June 30, 2005
Net loss, as reported	\$ (401)	\$ (823)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	1	7
Pro forma net loss	\$ (402) =====	\$ (830) =====
Basic loss per share:		
As reported	\$ (0.32)	\$ (0.65)
Pro forma	\$ (0.32) -----	\$ (0.66) -----

In accordance with SFAS 123(R), the fair value of each option grant has been estimated as of the date of grant using the binomial options-pricing model with the following weighted average assumptions used:

	Three and six months ended June 30, 2005
Dividend yield	2.06%
Expected volatility	43.00%
Risk free interest rate	4.59%
Expected life (in years)	4.0

Note 6 - Business Segment Data

Edgar Filing: TRANS LUX CORP - Form 10-Q

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

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

Information about the Company's operations in its three business segments for the three and six months ended June 30, 2006 and 2005 is as follows:

In thousands	Three months ended June 30 2006	2005	Six months e 2006

Revenues:			
Indoor display	\$ 3,335	\$ 3,808	\$ 6,325
Outdoor display	6,942	6,321	12,472
Entertainment/real estate	3,432	3,335	6,522
	-----	-----	-----
Total revenues	13,709	13,464	25,319
	=====	=====	=====
Operating income (loss):			
Indoor display	(202)	390	(535)
Outdoor display	504	416	527
Entertainment/real estate	913	806	1,734
	-----	-----	-----
Total operating income	1,215	1,612	1,726
Other income	19	135	18
Corporate general and administrative expenses	(841)	(1,504)	(1,933)
Interest expense - net	(1,024)	(893)	(2,087)
Income tax benefit	238	249	810
	-----	-----	-----
Net loss	\$ (393)	\$ (401)	\$ (1,466)
	=====	=====	=====

Note 7 - Components of Net Periodic Pension Cost

As of December 31, 2003, the benefit service under the pension plan had been frozen and, accordingly, there is no service cost for the periods ended June 30, 2006 and 2005.

Edgar Filing: TRANS LUX CORP - Form 10-Q

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

In thousands	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Interest cost	\$ 153	\$ 156	\$ 306	\$ 312
Expected return on plan assets	(163)	(156)	(326)	(312)
Amortization of prior service cost	4	4	8	8
Amortization of net actuarial loss	77	67	154	134
	-----	-----	-----	-----
Net periodic pension cost	\$ 71	\$ 71	\$ 142	\$ 142
	=====	=====	=====	=====

The minimum required contribution for 2006 is expected to be zero, but the Company estimates that it will contribute between zero and \$200,000 in 2006.

Note 8 - Legal Proceedings and Claims

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

Note 9 - Joint Venture

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

The following results of operations summary information relates to MetroLux for the three and six months ended June 30, 2006 and 2005, and summary balance sheet information relates to MetroLux as of June 30, 2006 and December 31, 2005:

In thousands	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenues	\$1,308	\$848	\$2,448	\$1,595
Gross profit	757	470	1,427	923
Net income	257	178	406	358
Company's share of partnership net income	129	89	203	179

In thousands	June 30	December 31
	2006	2005
Current assets	\$ 324	\$3,623
Noncurrent assets	1,893	2,021
	-----	-----
Total assets	2,217	5,644
	=====	=====

Edgar Filing: TRANS LUX CORP - Form 10-Q

Current liabilities	484	2,751
Noncurrent liabilities	872	883
	-----	-----
Total liabilities	1,356	3,634
	=====	=====
Company's equity in partnership net assets	\$ 513	\$1,047
	-----	-----

The Company's equity in partnership net assets is reflected in other assets in the consolidated balance sheets. The Company has guaranteed \$0.7 million (75%) of a \$1.0 million business loan to finance theatre equipment at its new fourteen-plex theatre held by MetroLux, until May 2011, and, accordingly has recognized a liability for \$42,000 at June 30, 2006. The unrelated 50% partner of MetroLux also guaranteed \$0.7 million (75%) of the \$1.0 million business loan. The assets of MetroLux collateralize this business loan.

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

Overview

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

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

Results of Operations

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Total revenues for the six months ended June 30, 2006 increased \$206,000 or 0.8% to \$25.3 million from \$25.1 million for the six months ended June 30, 2005, principally due to increases in Outdoor display sales revenues, offset by decreases in Indoor display rentals and maintenance revenues and sales revenues.

Indoor display revenues decreased \$917,000 or 12.7%. Of this decrease, Indoor display equipment rentals and maintenance revenues decreased \$556,000 or 11.4%, primarily due to disconnects and non-renewals of equipment on rental and maintenance on existing contracts in the financial services market. Indoor display equipment sales decreased \$361,000 or 15.3%, primarily due to a reduction in sales from the financial services market. The financial services market continues to be negatively impacted by the current investment climate, resulting in consolidation within that industry. Although the market conditions appear to be slowly improving, installations of new equipment tend to lag any

Edgar Filing: TRANS LUX CORP - Form 10-Q

economic turnaround.

Outdoor display revenues increased \$997,000 or 8.7%. Of this increase, Outdoor display equipment sales increased \$1.0 million or 11.9%, primarily in the outdoor catalog sports market. Outdoor display equipment rentals and maintenance revenues decreased \$42,000 or 1.5%, primarily due to the continued expected gradual revenue decline in the older Outdoor display equipment rental and maintenance bases acquired in the early 1990s.

Entertainment/Real Estate revenues increased \$126,000 or 2.0%, primarily due to an increase in concession sales, while box office revenues remained level.

Total operating income for the six months ended June 30, 2006 decreased 39.6% to \$1.7 million from \$2.9 million for the six months ended June 30, 2005, principally due to the reduction in revenues in the Indoor display segment and a decrease in the gross margin of the Indoor display segment due to the product mix.

Indoor display operating income decreased \$1.2 million, from an operating income of \$699,000 to an operating loss of \$535,000, primarily as a result of the decrease in revenues in the financial services market and a decrease in the gross margin on sold equipment due to the product mix. The cost of Indoor displays represented 75.0% of related revenues in 2006 compared to 63.8% in 2005. The cost of Indoor displays as a percentage of related revenues increased primarily due to the relationship between field service costs of equipment rentals and maintenance decreasing, and the revenues from Indoor display equipment rentals and maintenance also decreasing but not at the same rate. The Company continues to monitor and address the cost of field service to bring it in line with revenues from equipment rentals and maintenance. Indoor display cost of equipment sales increased \$229,000 or 24.4%, primarily due to the decrease in the gross margin of Indoor display equipment sales due to the product mix of sales to the transportation market. Indoor display general and administrative expenses increased \$197,000 or 10.2%, primarily due to a \$70,000 increase in the allowance for doubtful accounts receivable, and an increase in travel costs and commission. Cost of Indoor display equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation.

Outdoor display operating income decreased \$13,000 or 2.4%, primarily as a result of the product mix and a \$50,000 non-recurring material cost, offset by a decrease of \$187,000 in field service costs. The Company continues to address the cost of field service to bring it in line with revenues from equipment rentals and maintenance. The cost of Outdoor displays represented 79.3% of related revenues in 2006 compared to 78.9% in 2005. Outdoor display cost of equipment sales increased \$1.0 million or 15.4%, principally due to the increase in volume from the outdoor catalog sports market. Outdoor display cost of equipment rentals and maintenance decreased \$174,000 or 6.9%, primarily due to a decrease in field service costs. Outdoor display general and administrative expenses increased \$175,000 or 9.3%, primarily due to an increase in engineering costs, travel costs, salaries and benefits. Cost of Outdoor display equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation.

Entertainment/Real Estate operating income increased \$116,000 or 7.2%, primarily due to an increase in concession sales. The cost of Entertainment/real estate represented 70.8% of related revenues in 2006 compared to 72.7% in 2005. Cost of Entertainment/real estate, which includes film rental costs and depreciation expense, decreased \$32,000 or 0.7%, primarily due to the reduction in certain operating expenses. Entertainment/Real Estate general and administrative expenses increased \$66,000 primarily due to increased salaries and travel costs.

Corporate general and administrative expenses decreased \$579,000 or 23.0%,

Edgar Filing: TRANS LUX CORP - Form 10-Q

primarily due to reductions in insurance expense, payroll and benefits, and the positive effect of a currency exchange gain in 2006 of \$89,000 compared to a currency exchange loss of \$58,000 in 2005.

Net interest expense increased \$248,000 or 13.5%, which is primarily attributable to an increase in variable interest rates. The income from joint venture relates to the operations of the theatre joint venture, MetroLux Theatres, in Loveland, Colorado, which is included in the Entertainment/real estate segment.

The effective tax rates for the six months ended June 30, 2006 and 2005 were 35.6% and 38.3%, respectively.

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Total revenues for the three months ended June 30, 2006 increased \$245,000 or 1.8% to \$13.7 million from \$13.5 million for the three months ended June 30, 2005, principally due to increases in Outdoor display sales revenues, offset by decreases in Indoor display rentals and maintenance revenues and sales revenues.

Indoor display revenues decreased \$472,000 or 12.4%. Of this decrease, Indoor display equipment rentals and maintenance revenues decreased \$272,000 or 11.1%, primarily due to disconnects and non-renewals of equipment on rental and maintenance on existing contracts in the financial services market. Indoor display equipment sales decreased \$200,000 or 14.7%, primarily due to a reduction in sales from the financial services market. The financial services market continues to be negatively impacted by the current investment climate, resulting in consolidation within that industry. Although the market conditions appear to be slowly improving, installations of new equipment tend to lag any economic turnaround.

Outdoor display revenues increased \$620,000 or 9.8%. Of this increase, Outdoor display equipment sales increased \$690,000 or 14.0%, primarily in the outdoor catalog sports market. Outdoor display equipment rentals and maintenance revenues decreased \$70,000 or 5.1%, primarily due to the continued expected gradual revenue decline in the older Outdoor display equipment rental and maintenance bases acquired in the early 1990s.

Entertainment/Real Estate revenues increased \$97,000 or 2.9%, primarily due to an increase in concession sales, while box office revenues remained level.

Total operating income for the three months ended June 30, 2006 decreased \$397,000 to \$1.2 million from \$1.6 million for the three months ended June 30, 2005, principally due to the reduction in revenues in the Indoor display segment and a decrease in the gross margin in the Indoor display segment due to the product mix.

Indoor display operating income decreased \$591,000, from an operating income of \$390,000 to an operating loss of \$201,000, primarily as a result of the decrease in revenues in the financial services market and a decrease in the gross margin on sold equipment due to the product mix. The cost of Indoor displays represented 73.4% of related revenues in 2006 compared to 64.9% in 2005. The cost of Indoor displays as a percentage of related revenues increased primarily due to the relationship between field service costs of equipment rentals and maintenance decreasing, and the revenues from Indoor display equipment rentals and maintenance also decreasing but not at the same rate. The Company reduced the cost of field service by \$89,000 during the three months ended June 30, 2006 and continues to monitor and address these costs to bring them in line with revenues from equipment rentals and maintenance. Indoor display cost of equipment sales increased \$97,000 or 16.6%, primarily due to the decrease in the gross margin of Indoor display equipment sales due to the product mix of sales to the transportation market. Indoor display general and administrative

Edgar Filing: TRANS LUX CORP - Form 10-Q

expenses increased \$139,000 or 14.6%, primarily due to an increase in travel costs and commission. Cost of Indoor display equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation.

Outdoor display operating income increased \$88,000 or 21.1%, primarily as a result of a decrease of \$87,000 in field service costs. The Company continues to monitor and address the cost of field service to bring it in line with revenues from equipment rentals and maintenance. The cost of Outdoor displays represented 78.6% of related revenues in 2006 compared to 77.5% in 2005. Outdoor display cost of equipment sales increased \$640,000 or 17.6%, principally due to the increase in volume from the outdoor catalog sports market. Outdoor display cost of equipment rentals and maintenance decreased \$80,000 or 6.3%, primarily due to a decrease in field service costs. Outdoor display general and administrative expenses decreased \$28,000 or 2.8%, primarily due to a reduction in certain selling expenses. Cost of Outdoor display equipment rentals and maintenance includes field service expenses, plant repair costs, maintenance and depreciation.

Entertainment/Real Estate operating income increased \$106,000 or 13.1%, primarily due to an increase in concession sales. The cost of Entertainment/real estate represented 71.5% of related revenues in 2006 compared to 73.4% in 2005. Cost of Entertainment/real estate, which includes film rental costs and depreciation expense, remained level. Entertainment/Real Estate general and administrative expenses increased \$23,000 or 13.6%, primarily due to increased salaries and travel costs.

Corporate general and administrative expenses decreased \$663,000 or 44.1%, primarily due to reductions in insurance expense, payroll and benefits, and the positive effect of a currency exchange gain in 2006 of \$94,000 compared to a currency exchange loss of \$46,000 in 2005.

Net interest expense increased \$131,000 or 14.7%, which is primarily attributable to an increase in variable interest rates. The income from joint venture relates to the operations of the theatre joint venture, MetroLux Theatres, in Loveland, Colorado, which is included in the Entertainment/real estate segment.

The effective tax rates for the three months ended June 30, 2006 and 2005 were 37.7% and 38.3%, respectively.

Liquidity and Capital Resources

On June 13, 2006, the Board of Directors of the Corporation did not declare a regular quarterly cash dividend for the second quarter of 2006 of \$0.035 per share on the Company's Common Stock and \$0.0315 per share on the Company's Class B Stock in order to conserve cash and prepay debt.

On June 15, 2006, the Company redeemed all of its \$12.2 million 7 1/2% Notes. The 7 1/2% Notes were convertible at the option of the holder into shares of Common Stock, \$1 par value per share, of the Company at any time prior to the close of business on the June 14, 2006 at the rate of \$14.013 per share, which conversion rate was substantially above the current market price of the Common Stock. The Company utilized \$6.1 million of its non-revolving line of credit to finance one-half of the redemption of the 7 1/2% Notes and utilized \$6.1 million of cash for the remaining one-half.

The Company has a bank Credit Agreement, which provides for a term loan of \$10.0 million, a non-revolving line of credit of up to \$6.2 million to finance purchases and/or redemptions of one-half of the 7 1/2% Convertible Subordinated

Edgar Filing: TRANS LUX CORP - Form 10-Q

Notes due December 1, 2006, and a revolving loan of up to \$5.0 million at variable interest rates ranging from LIBOR plus 2.25% to Prime (ranging from 6.85% to 8.25% at June 30, 2006). The Credit Agreement matures on January 1, 2008. The non-revolving line of credit is convertible into a four-year amortizing term loan on December 31, 2006 and matures January 1, 2008. At June 30, 2006, \$6.1 million of the non-revolving line of credit was outstanding and \$3.8 million of the revolving loan was outstanding, leaving \$1.2 million available under the revolving loan facility. The Credit Agreement requires an annual facility fee on the unused commitment of 0.25%, and requires compliance with certain financial covenants, which include a fixed charge coverage ratio of 1.1 to 1.0 through June 30, 2006 and 1.2 to 1.0 for quarters ending September 30, 2006 and thereafter, a loan-to-value ratio of not more than 50%, a leverage ratio of 3.0 to 1.0, a cap on capital expenditures and maintaining accounts with an average monthly compensating balance of not less than \$750,000. At June 30, 2006, the Company was in compliance with the forgoing financial covenants; but the Company was not in compliance with its minimum tangible net worth of not less than \$19.0 million, which its senior lender has waived at June 30, 2006.

On March 13, 2006, the Company completed an offer to exchange \$1,000 principal amount of its 8 1/4% Notes for each \$1,000 principal amount of its 7 1/2% Notes. The exchange offer commenced February 6, 2006 and expired on March 13, 2006. A total of \$0.1 million principal amount of 7 1/2% Notes were exchanged, leaving \$12.2 million principal amount of 7 1/2% Notes outstanding, and \$18.0 million principal amount of the 8 1/4% Notes outstanding. The 7 1/2% Notes were subsequently redeemed. The 8 1/4% Notes provide for a higher interest rate, which is payable semi-annually, have a longer term, are convertible into Common Stock at a lower conversion price of \$9.00 per share until March 1, 2007, may be redeemed by the Company, in whole or in part, at declining premiums beginning March 1, 2006, and are senior to the 7 1/2% Notes and the Company's Debentures.

Under various agreements, the Company is obligated to make future cash payments in fixed amounts. These consist of payments under the Company's long-term debt agreements, employment and consulting agreement payments and rent payments required under operating lease agreements.

The following table summarizes the Company's fixed cash obligations as of June 30, 2006 for the remainder of 2006 and the next four years:

In thousands	Remainder of 2006	2007	2008	2009	2010
Long-term debt, including interest	\$2,544	\$7,348	\$20,188	\$3,869	\$3,810
Employment and consulting agreement obligations	831	1,667	1,435	860	482
Operating lease payments	373	533	446	316	293
Total	\$3,748	\$9,548	\$22,069	\$5,045	\$4,585

Cash and cash equivalents decreased \$9.0 million for the six months ended June 30, 2006 compared to a decrease of \$0.9 million in 2005. The decrease in 2006 is primarily attributable to the redemption of the outstanding \$12.2 million 7 1/2% Notes on June 15, 2006. The Company utilized \$6.1 million of its non-revolving line of credit to finance one-half of the redemption of the 7 1/2% Notes and utilized \$6.1 million of cash for the remaining one-half. The Company also made a net \$1.2 million repayment on the revolving line of credit and \$1.1 million of scheduled payments of long-term debt, and made investments in equipment for rental, offset by the proceeds from the joint venture. The

Edgar Filing: TRANS LUX CORP - Form 10-Q

decrease in 2005 is primarily attributable to the investment in equipment for rental, expansion of the Company's movie theatre in Dillon, Colorado and scheduled payments of long-term debt.

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. In addition the Company is exposed to foreign currency exchange rate risk mainly as a result of its investment in its Canadian subsidiary. The Company may, from time to time, enter into derivative contracts to manage its interest risk. The Company does not enter into derivatives for trading or speculative purposes. At June 30, 2006, the Company did not hold any derivative financial instruments.

A one percentage point change in interest rates would result in an annual interest expense fluctuation of approximately \$334,000. A 10% change in the Canadian dollar relative to the U.S. dollar would result in a currency exchange expense fluctuation of approximately \$170,000, based on dealer quotes, considering current exchange rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's President and Co-Chief Executive Officer, Michael R. Mulcahy, the Company's Executive Vice President and Co-Chief Executive Officer, Thomas Brandt, and the Company's Executive Vice President and Chief Financial Officer, Angela D. Toppi, have evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this quarterly report. The Company's disclosure controls and procedures are designed to ensure that material information required to be disclosed by the Company in the reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include components of our internal controls over financial reporting. Management's assessment of the effectiveness of our internal controls over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute assurance that the control system's objectives will be met. Based on this evaluation, the Company's Co-Chief Executive Officers and Chief Financial Officer have concluded that these controls and procedures are effective.

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 second fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Edgar Filing: TRANS LUX CORP - Form 10-Q

Part II - Other Information

Item 1A. Risk Factors

The Company is subject to a number of risks including general business and financial risk factors. Any or all of such factors could have a material adverse effect on the business, financial condition or results of operations of the Company. You should carefully consider the following risk factors, in addition to those identified in our Annual Report on Form 10-K for the year ended December 31, 2005.

The Company has incurred losses for the three and six months ended June 30, 2006 of \$393,000 and \$1,466,000, respectively, and \$1,793,000 for the year ended December 31, 2005. However, the Company does have positive working capital of \$8.2 million as of June 30, 2006 and a positive cash flow from operations for the six months ended June 30, 2006 of \$509,000. Management believes that its current cash resources will be sufficient to fund its operations and its current obligations through June 30, 2007.

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

The Annual Meeting of Stockholders of Trans-Lux Corporation was held on June 13, 2006 for the purpose of electing directors and ratifying the retention of auditors as set forth below.

All of management's nominees for directors for a three-year term as listed in the proxy statement were elected by the following vote:

	For ---	Withheld -----
Steven Baruch	3,615,676	151,425
Thomas Brandt	3,563,451	203,650
Howard M. Brenner	3,619,371	147,730

The recommendation to ratify the retention of Eisner LLP as the independent auditors for the Company was approved by the following vote:

	For ---	Against -----	Abstain -----
Totals	3,584,849	135,737	46,515

Item 5. Other Information

During the quarter for which this report on Form 10-Q is filed, the registrant filed a Form 8-K dated June 13, 2006, stating that the Board of Directors of the Corporation did not declare a quarterly dividend in order to conserve cash and pay debt.

Edgar Filing: TRANS LUX CORP - Form 10-Q

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS-LUX CORPORATION

(Registrant)

Date: August 14, 2006

by /s/ Angela D. Toppi

Angela D. Toppi
Executive Vice President and
Chief Financial Officer