

TRANS LUX CORP
Form 10-K
July 02, 2013

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

FORM 10-K

(Mark
One)

☒ ANNUAL REPORT PURSUANT TO
SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended December 31,
2012

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 1-2257

TRANS-LUX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-1394750

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

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26 Pearl Street, Norwalk, CT 06850-1647

(Address of registrant's principal executive offices) (Zip code)

Registrant's telephone number, including area code: (203) 853-4321

Securities registered pursuant to Section 12(b) of the Act:

Title of each

class

Name of each exchange on which registered

Common Stock, \$0.001 par
value

None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes ☐ No ☒

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 ☒

CONTINUED

TRANS-LUX CORPORATION

2012 Form 10-K Cover Page Continued

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)
Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates of the registrant based upon the last sale price of the registrant's Common Stock reported on OTCQB on June 30, 2012, was approximately \$11,912,000. The registrant has no non-voting common stock.

The number of shares outstanding of the registrant's Common Stock, par value \$0.001 per share, as of the latest practicable date, on July 1, 2013, was 25,895,424 shares of Common Stock.

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DOCUMENTS INCORPORATED BY REFERENCE:

None.

TRANS-LUX CORPORATION

2012 Form 10-K Annual Report

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PART I

ITEM 1. BUSINESS

SUMMARY

Unless the context otherwise requires, the term “Company” as used herein refers to Trans-Lux Corporation and its subsidiaries. The Company is a leading designer and manufacturer of digital signage display solutions. The essential elements of these systems are the real-time, programmable digital displays the Company designs, manufactures, distributes and services. These display systems utilize LED (light emitting diode) technologies. Designed to meet the digital signage solutions for any size venue’s indoor and outdoor needs, these display products include full color text, graphic and video displays for stock and commodity exchanges, financial institutions, college and high school sports stadiums, schools, casinos, convention centers, corporate applications, government applications, theatres, retail sites, airports, billboard sites and numerous other applications. In 2010, the Company started a new business opportunity in the LED lighting market with 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.

DIGITAL DISPLAY PRODUCTS

The Company’s new generation of LED large screen systems features the latest digital display technologies and capabilities. The Company’s product line of high performance state-of-the art digital displays and controllers are used to communicate messages and information in virtually any configuration in a variety of indoor and outdoor applications. Most of the Company’s digital display products include hardware components and sophisticated software. In both the indoor and outdoor markets in which the Company serves, the Company adapts basic product types and technologies for specific use in various niche market applications. The Company also operates a direct service network throughout the United States and parts of Canada, which performs on-site project management, installation, service and maintenance for its customers and others.

The Company employs a modular engineering design strategy, allowing basic “building blocks” of electronic modules to be easily combined and configured in order to meet the broad application requirements of the various industries it serves. This approach ensures product flexibility, reliability, ease of service and minimum spare parts requirements.

The Company's Digital display market is comprised of two distinct segments: the Digital display sales division and the Digital display lease and maintenance division. Digital displays are used by financial institutions, including brokerage firms, banks, energy companies, insurance companies and mutual fund companies; sports stadiums and venues; educational institutions; outdoor advertising companies; corporate and government communication centers; retail outlets; casinos, race tracks and other gaming establishments; airports, train stations, bus terminals and other transportation facilities; movie theatres; health maintenance organizations and in various other applications.

Digital Display Sales Division: The Digital display sales market is currently dominated by five categories of users: financial, government/private sector, gaming, scoreboards and outdoor advertising.

The financial sector, which includes trading floors, exchanges, brokerage firms, banks, mutual fund companies and energy companies, has long been a user of electronic information displays due to the need for real-time dissemination of data. The major stock and commodity exchanges depend on reliable information displays to post stock and commodity prices, trading volumes, interest rates and other financial data. Brokerage firms use electronic ticker displays for both customers and brokers; they have also installed other larger displays to post major headline news events in their brokerage offices to enable their sales force to stay up-to-date on events affecting general market conditions and specific stocks. Banks and other financial institutions also use information displays to advertise product offerings to consumers. The financial sector has a product line of advanced last sale price displays, full color LED tickers and graphic/video displays.

The government/private sector includes applications found in major corporations, public utilities and government agencies for the display of real-time, critical data in command/control centers, data centers, help desks, visitor centers, lobbies, inbound/outbound telemarketing centers, retail applications to attract customers and for employee communications. Digital displays have found acceptance in applications for the healthcare industry such as outpatient pharmacies, military hospitals and HMOs to automatically post patient names when prescriptions are ready for pick up. Theatres use digital displays to post current box office and ticket information, directional information and to promote concession sales. Information displays are consistently used in airports, bus terminals and train stations to post arrival and departure times and gate and baggage claim information, all of which help to guide passengers through these facilities.

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The gaming sector includes casinos, Indian gaming establishments and racetracks. These establishments generally use large information displays to post odds for race and sporting events and to display timely information such as results, track conditions, jockey weights, scratches and real-time video. Casinos and racetracks also use digital displays throughout their facilities to advertise to and attract gaming patrons.

The scoreboard sector includes digital displays used by high schools, college sports stadiums, sports venues, municipal sports playing fields, entertainment facilities and recreational facilities to disseminate pertinent game information and advertising to the audience. This sector generally sells through dealers and distributors.

The outdoor advertising sector includes digital displays used by automobile dealerships, churches, military installations, gas stations, highway departments, entertainment facilities and outdoor advertisers, such as digital billboards, attempting to capture the attention of passers-by.

Equipment for the digital display sales segment generally has a lead-time of 30 to 120 days depending on the size and type of equipment ordered and material availability.

Digital Display Lease and Maintenance Division: The Digital display lease and maintenance division leases and performs maintenance on digital displays across all of the sectors under agreement terms ranging from 30 days to 10 years.

Sales Order Backlog (excluding leases): The amount of sales order backlog at December 31, 2012 and 2011 was approximately \$2.2 million and \$2.9 million, respectively. The December 31, 2012 backlog is expected to be recognized in 2013. These amounts include only the sale of products; they do not include new lease orders or renewals of existing lease agreements that may be presently in-house.

ENGINEERING AND PRODUCT DEVELOPMENT

The Company's ability to compete and operate successfully depends on its ability to anticipate and respond to the changing technological and product needs of its customers, among other factors. For this reason, the Company continually develops enhancements to its existing product lines and examines and tests new display technologies.

In 2010, the Company introduced TLVision™, our new generation of LED Large Screen Systems that feature the latest digital display technologies and capabilities, available in various pitch design, including the industry's first 3mm LED display solution. This new line of products consists of full color video products that can be used in a multitude of applications. These applications range from posting alphanumeric data to the displaying of full HD video. The pixel pitches of the products range from 3mm for very close distance viewing and up to 127mm for very long distance viewing. The Company also recently expanded its line of scoreboard solutions using its TLVision™ technology and improved hand-held, simple to operate remotes and wireless control devices.

As part of its ongoing development efforts, the Company seeks to package certain products for specific market segments as well as continually tracking emerging technologies that can enhance its products. Full color, live video and digital input technologies continue to be enhanced.

The Company maintains a staff of 8 people who are responsible for product development and support. The engineering, product enhancement and development efforts are supplemented by outside independent engineering consulting organizations, as required. Engineering expense and product enhancement and development costs amounted to \$696,000 and \$843,000 in 2012 and 2011, respectively.

MARKETING AND DISTRIBUTION

In North America, the Company markets its digital display products in the United States and Canada using a combination of distribution channels, including 9 direct sales representatives, one telemarketer and a network of independent dealers and distributors. By working with software vendors and using the internet to expand the quality and quantity of multimedia content that can be delivered to our digital displays, we are able to offer customers relevant, timely information, content management software and display hardware in the form of turnkey display communications packages.

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The Company employs a number of different marketing techniques to attract new customers, including direct marketing efforts by its sales force to known and potential users of information displays; internet marketing; advertising in industry publications; and exhibiting at approximately 12 domestic and international trade shows annually.

Internationally, the Company uses a combination of internal sales people and independent distributors to market its products outside the United States. The Company has existing relationships with approximately 20 independent distributors worldwide covering Europe, the Middle East, South America, Africa, the Far East and Australia. Foreign revenues represented less than 10% of total revenues for the years ended December 31, 2012 and 2011, respectively.

Headquartered in Norwalk, Connecticut, the Company has sales and service offices in Des Moines, Iowa, Cartersville, Georgia and Burlington, Ontario as well as approximately 17 satellite offices in the United States and Canada.

The Company's revenues in 2012 and 2011 did not include any single customer that accounted for more than 10% of total revenues.

MANUFACTURING AND OPERATIONS

The Company's production facilities are located in Des Moines, Iowa. The production facilities consist principally of the manufacturing, assembly and testing of digital display units and related components. The Company performs most subassembly and most final assembly of its products.

All product lines are design engineered by the Company and controlled throughout the manufacturing process. The Company has the ability to produce very large sheet metal fabrications, cable assemblies and surface mount and through-hole designed assemblies. Some of the subassembly processes are outsourced. The Company's production of many of the subassemblies and final assemblies gives the Company the control needed for on-time delivery to its customers.

The Company has the ability to rapidly modify its product lines. The Company's displays are designed with flexibility in mind, enabling the Company to customize its displays to meet different applications with a minimum amount of lead-time. The Company designs certain of its materials to match components furnished by suppliers. If such suppliers were unable to provide the Company with those components, the Company would have to contract with other suppliers to obtain replacement sources. Such replacement might result in engineering design changes, as well as delays in obtaining such replacement components. The Company believes it maintains suitable inventory and has contracts providing for delivery of sufficient quantities of such components to meet its needs. The Company also believes that there are presently other qualified vendors of these components. Other than the LEDs and LED modules which are manufactured by foreign sources, the Company does not acquire significant amounts of components directly from foreign suppliers. The Company's products are third-party certified as complying with applicable safety, electromagnetic emissions and susceptibility requirements worldwide.

SERVICE AND SUPPORT

The Company emphasizes the quality and reliability of its products and the ability of its field service personnel and third-party agents to provide timely and expert service to the Company's equipment on lease and maintenance bases and other types of customer-owned equipment. The Company believes that the quality and timeliness of its on-site service personnel are important components for the Company's ongoing and future success. The Company provides turnkey installation and support for the products it leases and sells in the United States and Canada. The Company provides training to end-users and provides ongoing support to users who have questions regarding operating procedures, equipment problems or other issues. The Company provides installation and service to those who purchase and lease equipment. Additionally, the Company's dealers and distributors offer support for the products they sell in the market segments they cover.

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Personnel based in regional and satellite service locations throughout the United States and Canada provide high quality and timely on-site service for the installed equipment on lease and maintenance bases and other types of customer-owned equipment. Purchasers or lessees of the Company's larger products, such as financial exchanges, casinos and sports stadiums, often retain the Company to provide on-site service through the deployment of a service technician who is on-site daily for scheduled events. The Company operates its National Technical Services and Repair Center from its Des Moines, Iowa facility. Equipment repairs are performed in Des Moines and service technicians are dispatched nationwide from the Norwalk facility. The Company's field service division is augmented by various service companies in the United States, Canada and overseas. From time to time, the Company uses various third-party service agents to install, service and/or assist in the service of certain displays for reasons that include geographic area, size and height of displays.

COMPETITION

The Company's availability of short and long-term leases to customers and its nationwide sales, service and installation capabilities are major competitive advantages in the digital display business. The Company believes that it is the largest supplier of large-scale stock, commodity, sports and race book gaming digital displays in the United States, as well as one of the larger digital display and service organizations in the country.

The Company competes with a number of competitors, both larger and smaller than itself, with products based on different forms of technology. There are several competitors whose current products utilize similar technology to the Company's and who possess the resources necessary to develop competitive and more sophisticated products in the future.

LED LIGHTING

In 2010, the Company started a new business opportunity in the LED lighting market with energy-saving lighting solutions that features 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.

DISCONTINUED OPERATIONS

The Company owned an income-producing real estate property located in Santa Fe, New Mexico, which was sold in 2013 because it did not directly relate to our core business. The Company also owned land in Silver City, New Mexico, which was sold in 2012 because it did not directly relate to our core business.

INTELLECTUAL PROPERTY

The Company holds a number of trademarks for its products and considers such trademarks important to its business.

EMPLOYEES

The Company has approximately 94 employees as of June 24, 2013. Approximately 27% of the employees are unionized. The Company believes its employee relations are good.

ITEM 1A. RISK FACTORS

THERE IS SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our independent registered public accounting firm has issued an opinion on our consolidated financial statements that states that the consolidated financial statements were prepared assuming we will continue as a going concern and further states that the continuing losses and uncertainty regarding the ability to make the required minimum funding contributions to the pension plan as well as the sinking fund payments on the Debentures and the principal and interest payments on the Notes and the Debentures raises substantial doubt about our ability to continue as a going concern.

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 and (iii) make the required principal and interest payments on the Notes and Debentures, there would be a significant adverse impact on the financial position and the operating results of the Company.

THE OPERATING LOSSES

The Company has incurred operating losses for the past several years. During the years 2012 and 2011, the Company incurred losses from continuing operations of \$1,129,000 and \$974,000, respectively. The year ended December 31,

2012 includes a \$4.0 million gain on a warrant valuation adjustment, a \$0.4 million additional restructuring charge and a \$0.1 million gain on debt extinguishment. 2011 includes an \$8.8 million gain on debt extinguishment, a \$3.7 million charge for a warrant valuation adjustment and a \$0.2 million additional restructuring charge. The Company is dependent upon future operating performance 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 sales and lease and maintenance bases. There can be no assurance that we will be able to increase our revenue sufficiently to generate the cash required to fund our current operations.

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DEFAULT ON INDEBTEDNESS

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 250 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 on the same terms as previously offered. \$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 constituted 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. At December 31, 2012, the total amount outstanding under the Notes is classified as Current portion of long-term debt in the Consolidated Balance Sheets.

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 on the same terms as previously offered. \$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 constituted 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 failure to make the sinking fund and interest payments are events of default under the Credit

Agreement since it involves indebtedness over \$500,000. The Debentures are subordinate to all Senior Indebtedness of the Company. At December 31, 2012, the total amount outstanding under the Debentures is classified as Current portion of long-term debt in the Consolidated Balance Sheets.

In the event that the holders of the Notes or the Debentures or either of the trustees thereunder declare a default and begin to exercise any of their rights or remedies in connection with the non-payment defaults, this shall constitute a separate and distinct event of default and the senior lender may exercise any and all rights or remedies it may have. The amounts outstanding under the Credit Agreement are collateralized by all of the Digital display division assets. The Credit Agreement was paid in full in June 2013 and the liens held by the senior lender on the collateral in connection therewith have been terminated.

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PENSION PLAN WAIVERS FILED

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 and 2010 plan year waivers have been approved and granted subject to certain conditions, and defer payment of \$285,000 and \$559,000 of the minimum funding standard for the 2009 and 2010 plan years, respectively. The March 2013 waiver request would defer \$871,000 of the minimum funding standard for the 2012 plan year. If this waiver is not granted, 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. In 2012, the Company made \$559,000 of contributions to the plan. At this time, the Company is expecting to make its required contributions for the 2013 plan year and has already made \$218,000 of contributions; however there is no assurance that we will be able to make any or all of 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. The senior lender has waived the default of non-payment of certain pension plan contributions, but in the event that any government agency takes any enforcement action or otherwise exercises any rights or remedies it may have, this shall constitute a separate and distinct event of default and the senior lender may exercise any and all rights or remedies it may have under the Credit Agreement. This could have a material adverse effect on our profits, results of operations, financial condition and future prospects.

LEVERAGE

As of December 31, 2012, the Company's total long-term debt relating to continuing operations was \$2.9 million. Of this amount, \$2.5 million represented the current portion, of which \$1.0 million related to the Credit Agreement, which was satisfied when the Company financed the future receivables of certain lease contracts in June 2013. The Company's long-term debt relating to discontinued operations of the former Real estate segment was \$1.7 million (all of which was current), which mortgage was satisfied when the related property was sold in February 2013. We expect we may incur indebtedness in connection with new rental leases and working capital requirements. Our ability to satisfy our obligations will be dependent upon our future performance, which is subject to prevailing economic conditions and financial, business and other factors, including factors beyond our control. There can be no assurance that our operating cash flows will be sufficient to meet our long-term debt service requirements or that we will be able to refinance indebtedness at maturity. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

RELIANCE ON KEY SUPPLIERS

We design certain of our products to match components furnished by suppliers. If such suppliers were unable or unwilling to provide us with those components, we would have to contract with other suppliers to obtain replacement sources. In particular, we purchase most of the LEDs and LED module blocks used in our digital displays and lighting from three main suppliers. We do not have long-term supply contracts with these suppliers. A change in suppliers of either LED module blocks or certain other components may result in engineering design changes, as well as delays in obtaining such replacement components. We believe that there are presently other qualified vendors of these components. Our inability to obtain sufficient quantities of certain components as required, or to develop alternative sources at acceptable prices and within a reasonable time, could result in delays or reductions in product shipments that could have a materially adverse effect on our business and results of operations.

COMPETITION

Our digital displays compete with a number of competitors, both larger and smaller than us, and with products based on different forms of technology. In addition, there are several competitors whose current products utilize similar technology and who possess the resources to develop competitive and more sophisticated products in the future. Our success is, to some extent, dependent upon our ability to anticipate technological changes in the industry and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements. There can be no assurance that competitors will not market new products which may have perceived advantages over our products or which, because of pricing strategies, render the products currently sold by the Company less marketable or would otherwise adversely affect our operating margins.

NATURE OF LEASING AND MAINTENANCE REVENUES

We derive a substantial percentage of our revenues from the leasing of our digital displays, generally pursuant to leases that have an average term of one to five years. Consequently, our future success is, at a minimum, dependent on our ability to obtain the renewal of existing leases or to enter into new leases as existing leases expire. We also derive a significant percentage of our revenues from maintenance agreements relating to our digital display products. The average term of such agreements is generally one to five years. A portion of the maintenance agreements are cancelable upon 30 days notice. There can be no assurance that we will be successful in obtaining the renewal of existing leases or maintenance agreements, obtaining replacement leases or realizing the value of assets currently under leases that are not renewed. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

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DEPENDENCE ON KEY PERSONNEL

We believe that our President and Chief Executive Officer, Jean-Marc Allain, plays a significant role in the success of the Company and the loss of his services could have an adverse effect on the Company. There can be no assurance that the Company would be able to find a suitable replacement for Mr. Allain. The Company has an employment agreement with Mr. Allain that expires in 2015. The Company believes that in addition to Mr. Allain, there is a core group of executives that also plays a significant role in the success of the Company.

EFFECT OF CERTAIN ANTI-TAKEOVER PROVISIONS AND CONTROL BY EXISTING STOCKHOLDERS

Our Amended and Restated Certificate of Incorporation contains certain provisions that could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of our Common Stock, thus making it less likely that a stockholder will receive a premium on any sale of shares of our Common Stock. Our Board of Directors is divided into three classes, each of which serves for a staggered three-year term, making it more difficult for a third party to gain control of our Board.

Additionally, we are authorized to issue 500,000 shares of Preferred Stock, none of which are outstanding as of December 31, 2012. The Preferred Stock contains such rights, preferences, privileges and restrictions as may be fixed by our Board of Directors, which may adversely affect the voting power or other rights of the holders of Common Stock or delay, defer or prevent a change in control of the Company, or discourage bids for the Common Stock at a premium over its market price or otherwise adversely affect the market price of the Common Stock.

As of December 31, 2012, 9 stockholders who are executive officers and/or directors of the Company beneficially own approximately 7.7% of the Common Stock and 1 stockholder who is neither an officer nor director of the Company beneficially owns approximately 46.7% of the Common Stock.

LIMITED TRADING VOLUME AND VOLATILITY OF STOCK PRICE

Our Common Stock is not widely held and the volume of trading has been relatively low and sporadic. Accordingly, the Common Stock is subject to increased price volatility and reduced liquidity. There can be no assurance that a more active trading market for the Common Stock will develop or be sustained if it does develop. The limited public float of our Common Stock could cause the market price for the Common Stock to fluctuate substantially. In addition, stock markets have experienced wide price and volume fluctuations in recent periods and these fluctuations often have been unrelated to the operating performance of the specific companies affected. Any of these factors could adversely affect the market price of the Company's Common Stock.

OUR INTERNATIONAL OPERATIONS SUBJECT US TO POTENTIAL FLUCTUATIONS IN EXCHANGE RATES BETWEEN THE UNITED STATES DOLLAR AND FOREIGN CURRENCIES, AS WELL AS INTERNATIONAL LEGAL REQUIREMENTS, WHICH COULD IMPACT OUR PROFITABILITY

Our financial condition, operating results and future growth could be significantly impacted by risks associated with our international activities, including specifically changes in the value of the U.S. dollar relative to foreign currencies and international tax rules. Because a significant portion of the Company's business is done in Canada, fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar could seriously impact our manufacturing and other costs, as well as overall profitability. The risks to our business related to fluctuations in currency exchange rates is further magnified by the current volatility in the currency markets that are characteristic of financial markets, and currency markets in particular.

Compliance with U.S. and foreign laws and regulations that apply to our international operations, including import and export requirements, anti-corruption laws, including the Foreign Corrupt Practices Act, tax laws (including U.S. taxes on foreign subsidiaries), foreign exchange controls, anti-money laundering and cash repatriation restrictions, data privacy requirements, labor laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions, and may subject us to additional costs which may arise in the future as a result of changes in these laws and regulations or in their interpretation. We have not implemented formal policies and procedures designed to ensure compliance with all of these laws and regulations. Any such violations could individually or in the aggregate materially adversely affect our reputation, financial condition or operating results.

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OUR SIGNIFICANT MANUFACTURING OPERATIONS IN CHINA SUBJECT US TO POLITICAL AND LEGAL RISKS BEYOND OUR CONTROL

Many components of our products are produced in China by third-party manufacturers. Our reliance on third-party Chinese manufacturers exposes us to risks that are not in our control, such as unanticipated cost increases or negative fluctuations in currency, which could negatively impact our results of operations and working capital. Any termination of or significant disruption in our relationship with our Chinese suppliers may prevent us from filling customer orders in a timely manner. Given the state of the Chinese political system, we cannot guaranty that our agreements with our Chinese suppliers will remain enforceable pursuant to Chinese law. Furthermore, we cannot guaranty that all rights to payment or performance under our agreements with our Chinese manufacturing partners will be enforceable, and that all debts owing to us, whether in the form of cash or product, will be collectable. While we do not envision any adverse change to our international operations or suppliers, especially given the gradual move towards global integration by the Chinese government and financial markets, adverse changes to these operations, as a result of political, governmental, regulatory, economic, exchange rate, labor, logistical or other factors, could have a material adverse effect on our future operating results if China experiences financial or political volatility.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company's headquarters and principal executive offices are located in a leased facility at 26 Pearl Street, Norwalk, Connecticut, which is used for administration, engineering and sales. The Company owns a facility in Des Moines, Iowa where its manufacturing operations are maintained.

The Company leases two other premises throughout North America for use as sales, service and/or administrative operations. The aggregate rent expense was \$327,000 and \$303,000 for the years ended December 31, 2012 and 2011,

respectively.

ITEM 3. 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 believes that it has accrued adequate reserves individually and in the aggregate, however unfavorable outcomes of certain of the legal proceedings could have a material adverse effect on the consolidated financial position and operations of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Since November 17, 2010, the Company's Common Stock has traded on the OTCQB under the symbol TNLX. Prior to November 17, 2010, the Company's Common Stock had traded on the NYSE Amex under the symbol TLX. Sales price information is set forth in Item 5(d) below.

(b) The Company had approximately 877 holders of record of its Common Stock as of July 1, 2013.

(c) The Board of Directors did not declare any cash dividends for Common Stock during 2012. Management and the Board of Directors will continue to review whether payment of quarterly cash dividends will be made.

(d) The following table sets forth the range of Common Stock prices on the OTCQB.

	2012		2011	
	High	Low	High	Low
First Quarter	\$0.85	\$0.45	\$0.31	\$0.11
Second Quarter	\$0.70	\$0.35	\$0.20	\$0.05
Third Quarter	\$0.35	\$0.24	\$0.15	\$0.05
Fourth Quarter	\$0.45	\$0.17	\$0.78	\$0.15

(e) The Company did not purchase any of its equity securities during any month of the fourth fiscal quarter of 2012.

ITEM 6. SELECTED FINANCIAL DATA

(a) Not applicable.

(b) Not applicable.

ITEM 7. 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.

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.

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Going Concern

In light of the unprecedented instability in the financial markets and the severe slowdown in the overall economy, our revenues have declined and 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 \$6.4 million at December 31, 2012 and the Company has a significant amount due to their pension plan 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 and (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, which could require the disposition of some or all of our assets, which could require us to curtail or cease operations.

Moreover, because of the uncertainty surrounding our ability to obtain additional liquidity and the potential of the noteholders and/or trustees to give notice to the Company of a default on either the Debentures or the Notes, our independent registered public accounting firm has issued an opinion on our 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 Consolidated Financial Statements - Going Concern.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally

accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to percentage of completion, uncollectible accounts receivable, slow-moving and obsolete inventories, rental equipment, goodwill and intangible assets, income taxes, warranty obligations, warrant liabilities, pension plan obligations, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has discussed the development and selection of these accounting estimates and the related disclosures with the audit committee of the Board of Directors.

Management believes the following critical accounting policies, among others, involve its more significant judgments and estimates used in the preparation of its consolidated financial statements:

Percentage of Completion: The Company recognizes revenue on long-term equipment sales contracts using the percentage of completion method based on estimated incurred costs to the estimated total cost for each contract. Should actual total cost be different from estimated total cost, an addition or a reduction to cost of sales may be required.

Uncollectible Accounts Receivable: The Company maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of its customers to make required payments. Should non-payment by customers differ from the Company's estimates, a revision to increase or decrease the allowance for uncollectible accounts receivable may be required.

Slow-Moving and Obsolete Inventories: The Company writes down its inventory for estimated obsolescence equal to the difference between the carrying value of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write downs may be required.

Rental Equipment: The Company evaluates rental equipment assets for possible impairment annually to determine if the carrying amount of such assets may not be recoverable. The Company uses a cash flow model to determine the fair value under the income approach, based on the remaining lengths of existing leases. Changes in the assumptions used could materially impact our fair value estimates. Assumptions critical to our fair value estimates are projected renewal rates and CPI rate changes. These and other assumptions are impacted by national and global economic conditions including changes in national and international interest rates, taxes, inflation, etc. and will change in the future based on period-specific facts and circumstances, thereby possibly requiring an impairment charge in the future. The December 31, 2012 impairment analysis included renewal rate estimates of 75.5% for indoor equipment and 74.2% for outdoor equipment and a CPI rate change of 1.2%, which were the actual rates for 2012. For every 1-percentage-point change in the renewal rate for indoor equipment, the valuation would change by approximately

\$139,000. For every 1-percentage-point change in the renewal rate for the outdoor equipment, the valuation would change by approximately \$52,000. The CPI rate change used for our 2013 billings was the actual rate of 1.2% based on reports from the Department of Labor's Bureau of Labor Statistics website. For every 0.1-percentage point change in the CPI rate, the valuation would change by approximately \$11,000. Since the actual rates for each of these components has exceeded our previous estimates, the fair value estimate of the rental equipment assets would have a higher value now as compared to the last valuation period, indicating that no impairment charge would be required at this time.

Indoor rental equipment is comprised of installed digital displays on lease that are used for indoor trading applications and has an estimated useful life of 10 years. Outdoor rental equipment is comprised of installed time and temperature and message digital displays that are used for outdoor advertising and messaging and has an estimated useful life of 15 years. The reason for the longer estimated useful life of the outdoor equipment is because the Company typically enters into longer initial contract terms for the outdoor equipment of 5 years compared to 1 to 3 years for the indoor equipment. In addition, historically, contracts for outdoor equipment generally are more likely to be renewed. For example, the Company is party to contracts for outdoor equipment originally installed over 30 or 40 years ago in the 1970's and 1980's, as well as over 100 installations from the 1990's that are still in operation. Current outdoor contracts have an average age of 13.2 years from installation through the expiration of their current terms. By comparison, the Company is party to numerous contracts for indoor equipment originally installed up to 20 years ago in the early 1990's. Current indoor contracts have an average age of 9.3 years from installation through the expiration of their current terms.

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Goodwill and Intangible Assets: The Company evaluates goodwill and intangible assets for possible impairment annually for goodwill and when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable for other intangible assets. The Company uses the income and the market approach to test for impairment of its goodwill, and considers other factors including economic trends and our market capitalization relative to net book value. The Company weighs these approaches by using a 67% factor for the income approach and a 33% factor for the market approach. Together these two factors estimate the fair value of the reporting unit. The Company's \$744,000 goodwill relates to its catalog sports reporting unit. The Company uses a discounted cash flow model to determine the fair value under the income approach which contemplates an overall weighted average revenue growth rate of 2.3%. If the Company were to reduce its revenue projections on the reporting unit by 1.3% within the income approach, the fair value of the reporting unit would be below carrying value. The gross profit margins used were consistent with historical margins achieved by the Company during previous years. If there is a margin decline of 1.9% or more the model would yield results of a fair value less than carrying amount. The Company uses a market multiple approach based on revenue to determine the fair value under the market approach which includes a selection of and market price of a group of comparable companies and the performance of the guidelines of the comparable companies and of the reporting unit.

The October 1, 2012 annual review indicated that the fair value of the reporting unit exceeded its carrying value by 32.6%; therefore there was no impairment of goodwill related to our catalog sports reporting unit. Changes in the assumptions used could materially impact our fair value estimates. Assumptions critical to our fair value estimates are: (i) discount rate used to derive the present value factors used in determining the fair value of the reporting unit, (ii) projected average revenue growth rates used in the reporting unit models and (iii) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances, thereby possibly requiring an impairment charge in the future.

During 2011, the Company wrote off the goodwill associated with the older LED technology and recorded a goodwill impairment charge of \$66,000.

Income Taxes: The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and ongoing feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

Warranty Obligations: The Company provides for the estimated cost of product warranties at the time revenue is recognized. While the Company engages in product quality programs and processes, including evaluating the quality of the component suppliers, the warranty obligation is affected by product failure rates. Should actual product failure rates differ from the Company's estimates, revisions to increase or decrease the estimated warranty liability may be required.

Warrant Liabilities: The Company measures its warrant liabilities as of the end of each fiscal quarter. The fair value is estimated using the Black-Scholes valuation model, which requires various assumptions including estimating stock price volatility, remaining life of the warrants and risk free interest rate.

Pension Plan Obligations: The Company is required to make estimates and assumptions to determine the obligation of our pension benefit plan, which include investment returns and discount rates. The Company recorded an after tax charge in unrecognized pension liability in other comprehensive loss of \$509,000 and \$1.4 million during 2012 and 2011, respectively. Estimates and assumptions are reviewed annually with the assistance of external actuarial professionals and adjusted as circumstances change. At December 31, 2012, plan assets were invested 31.8% in guaranteed investment contracts and 68.2% in equity and index funds. The investment return assumption takes the asset mix into consideration. The assumed discount rate reflects the rate at which the pension benefits could be settled. At December 31, 2012, the weighted average rates used for the computation of benefit plan liabilities were: investment returns, 8.00% and discount rate, 4.08%. Net periodic cost for 2013 will be based on the December 31, 2012 valuation. The defined benefit plan periodic cost was \$566,000 and \$499,000 in 2012 and 2011, respectively. At December 31, 2012, assuming no change in the other assumptions, a one-percentage point change in investment returns would affect the net periodic cost by \$54,000 and a one-percentage point change in the discount rate would affect the net periodic cost by \$192,000. As of December 31, 2003, the benefit service under the defined benefit plan had been frozen and, accordingly, there is no service cost for each of the two years ended December 31, 2012 and 2011. 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 standard 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 waivers for the 2009 and 2010 were approved and granted subject to certain conditions and have deferred payment of \$285,000 and \$559,000 of the minimum funding standard for the 2009 and 2010 plan years, respectively. The 2012 waiver, if granted, will defer payment of \$871,000. At this time, the Company is expecting to make its required contributions for the 2013 plan year and has already made \$218,000 of contributions; however there is no assurance that we will be able to make any or all of 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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Contingencies and Litigation: 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. Our former outside legal counsel has brought a claim against us for \$593,000, which we have included in Accrued liabilities on the Consolidated Balance Sheets. Should actual litigation results differ from the Company's estimates, revisions to increase or decrease the accrued reserves may be required.

Results of Operations

2012 Compared to 2011

Total revenues for the year ended December 31, 2012 decreased 3.1% to \$23.0 million from \$23.8 million for the year ended December 31, 2011, principally due to a decrease in Digital display lease and maintenance revenues.

Digital display sales revenues increased \$75,000 or 0.5%, primarily due to an increase in sales from the LED lighting market, offset by a decrease in the gaming market.

Digital display lease and maintenance revenues decreased \$811,000 or 10.4%, primarily due to disconnects and non-renewals of equipment on lease under existing contracts in the financial services market and the continued expected revenue decline in the older equipment on lease and maintenance bases acquired in the early 1990s. The global recession has negatively impacted the lease and maintenance revenues. 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 year ended December 31, 2012 remained level at \$4.9 million in comparison to the year ended December 31, 2011, principally due to a decline in the reserve for obsolete inventory, offset by an increase in the general and administrative expenses.

Digital display sales operating loss increased \$232,000 or 9.0% to \$2.8 million for 2012 compared to \$2.6 million for 2011, primarily as a result of an increase in general and administrative expenses, offset by the decline in the reserve for obsolete inventory. The cost of Digital display sales represented 79.8% of related revenues in 2012 compared to 87.4% in 2011. The cost of Digital display sales decreased \$1.2 million or 8.3%, primarily due to reductions in the

reserve for obsolete inventory related to the older technology that has been replaced by our new TLVision™ product line. Digital display sales general and administrative expenses increased \$1.5 million or 32.0%, primarily due to certain consultant marketing expenses and an increase in restructuring costs.

Digital display lease and maintenance operating income increased \$378,000 to \$697,000 in 2012 compared to \$319,000 in 2011, primarily as a result of a reduction in depreciation expense and general and administrative expenses, offset by the decrease in revenues. The cost of Digital display lease and maintenance represented 83.2% of related revenues in 2012 compared to 84.8% in 2011. Digital display cost of lease and maintenance decreased \$801,000 or 12.2%, primarily due to a \$549,000 decrease in depreciation expense and a \$252,000 decrease in field service costs to maintain the equipment. The Company periodically addresses the cost of field service to keep it in line with revenues from equipment leases and maintenance. 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 decreased \$388,000 or 45.2%, primarily due to a decrease in certain administrative costs and a reduction in goodwill impairment charge.

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Corporate general and administrative expenses increased \$150,000 or 5.7%. The 2012 corporate general and administrative expenses include a negative change of \$217,000 in the Canadian currency exchange gain (loss) compared to 2011. The Company continues to monitor and reduce certain overhead costs such as benefit and medical costs.

Net interest expense decreased \$920,000 or 75.6%, primarily due to the reduction in long-term debt as a result of the restructuring plan, see Note 3 to the condensed consolidated financial statements Plan of Restructuring, as well as a reduction in the amortization of prepaid financing costs.

The gain on debt extinguishment is attributable to the exchange of the 8¼% Notes and 9½% Debentures. See Note 13 to the Consolidated Financial Statements Long Term Debt.

The change in warrant liabilities is attributable to the change in the fair market value of the warrants issued in connection with the Offering. See Note 12 to the Consolidated Financial Statements Warrant Liabilities.

The effective tax rate for the years ended December 31, 2012 and 2011 was 1.7% and 0.6%, respectively. Both the 2012 and 2011 tax rates are being affected by the valuation allowance on the Company's deferred tax assets as a result of reporting pre-tax losses.

Liquidity and Capital Resources

Current Liquidity

The Company has incurred significant recurring losses from continuing operations and has a significant working capital deficiency. The Company incurred a net loss from continuing operations of \$1,129,000 in 2012 and has a working capital deficiency of \$7.7 million as of December 31, 2012. The 2012 results include a \$4.0 million benefit for marking the warrants to market value, see Note 3 to the Consolidated Financial Statements Plan of Restructuring.

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 sales and 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 generated cash from operating activities of continuing operations of \$323,000 for the year ended December 31, 2012 and used cash for operating activities of continuing operations of \$352,000 for the year ended December 31, 2011. 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.

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Cash and cash equivalents increased \$55,000 in 2012. The increase is primarily attributable to cash provided by continuing operations of \$323,000 and borrowing on the Revolving Credit facility of \$500,000, offset by \$484,000 of investment in equipment manufactured for rental, \$72,000 of investment in property, plant and equipment, \$66,000 of payments of long-term debt and \$146,000 of cash used in discontinued operations. 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 increased \$711,000 in 2011. The increase was primarily attributable to the \$7.9 million net proceeds from issuance of Preferred Stock and Warrants, offset by \$6.7 million in payments of long-term debt, \$408,000 of investment in equipment manufactured for rental, \$64,000 of investment in property, plant and equipment and cash used in operating activities of \$352,000.

Under various agreements, the Company is obligated to make future cash payments in fixed amounts. These include payments under the Company's long-term debt agreements, employment and consulting agreement payments and rent payments required under operating lease agreements. The Company has both variable and fixed interest rate debt. Interest payments are projected based on actual interest payments incurred in 2012 until the underlying debts mature.

The following table summarizes the Company's fixed cash obligations as of December 31, 2012 over the next five fiscal years:

In thousands	2013	2014	2015	2016	2017
Long-term debt, including interest	\$ 4,629	\$ 89	\$ 400	\$ -	\$ -
Pension plan payments	1,445	1,110	784	571	266
Employment and consulting agreement obligations	275	275	34	-	-
Estimated warranty liability	102	74	53	34	18
Operating lease payments	207	10	-	-	-
Total	\$ 6,658	\$ 1,558	\$ 1,271	\$ 605	\$ 284

Of the fixed cash obligations for debt for 2013, \$1.0 million has been repaid on the Revolving Credit Facility through June 2013 as discussed below in the Receivable Financing and Revolving Credit Facility sections; \$1.7 million of mortgage debt in discontinued operations was settled with a short sale in February 2013 as discussed in the Other Long-Term Debt section below; \$1.8 million, including interest, of Notes and Debentures remain outstanding with consideration of an offer by the Company to settle in accordance with the Company's restructuring offer made in November 2011 for \$280,000 as discussed in the Restructuring Plan and Preferred Stock Offering section below. The Company paid \$218,000 of the 2013 pension obligation with a portion of the proceeds from the Receivable Financing as discussed in the Pension Plan Contributions section below.

Receivable Financing

On June 11, 2013, the Company entered into a Master Agreement for Sale and Assignment of Leases with AXIS Capital, Inc. (the 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. In connection with the Agreement, the Company has issued warrants to purchase 180,000 shares of the Company's Common Stock, par value \$0.001, to AXIS Capital, Inc. at an exercise price of \$0.50 per share. The issuance of the warrants was completed in accordance with the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

Other Long-Term Debt

The Company has a \$512,000 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.

The Company had a \$1.7 million mortgage on its real estate rental property located in Santa Fe, New Mexico at a variable rate of interest of Prime, with a floor of 6.75%, which was the interest rate in effect at December 31, 2012, payable in monthly installments, which matured December 12, 2012. On February 26, 2013, the property was sold and the mortgage was satisfied.

June 2011 Note Offering

On June 17, 2011, the Company entered into a subscription agreement for a private placement consisting of \$650,000 of 4.00% secured notes of the Company pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder. In connection with the purchase of these notes, the subscriber received a five-year warrant to purchase 1.0 million shares of the Company's Common Stock at an exercise price of \$0.10 per share. The financing was collateralized by the land held for sale located in Silver City, New Mexico, which has been sold, and the notes have been satisfied.

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Revolving Credit Facility

As of December 31, 2012, the Company had a bank Credit Agreement, as amended, which provided for a revolving loan of up to \$1.0 million, based on eligible accounts receivable, at a variable rate of interest of Prime plus 2.00%, (5.25% at December 31, 2012), which was due to mature on January 1, 2013. Subsequent to the end of the year, the Company paid off the revolving loan in full and the Credit Agreement has been satisfied. As of December 31, 2012, the Company had drawn \$1.0 million against the revolving loan facility, leaving none available for additional borrowing. The Credit Agreement required an annual facility fee on the unused commitment of 0.25%, and required compliance with certain financial covenants, as defined in the Credit Agreement, which included a senior debt coverage ratio of not less than 1.75 to 1.00, a loan-to-value ratio of not more than 50% and a \$1.0 million quarterly cap on capital expenditures. As of December 31, 2012, the Company was in compliance with the foregoing financial covenants, but was not in compliance with the minimum tangible net worth ratio of not less than \$6.5 million (\$2.7 million at December 31, 2012), which the senior lender waived. In addition, the senior lender has waived the defaults on the Notes and the Debentures, but in the event that the holders of the Notes or the Debentures or trustees declare a default and begin to exercise any of their rights or remedies in connection with the non-payment defaults, this shall constitute a separate and distinct event of default and the senior lender may exercise any and all rights or remedies it may have. In addition, the senior lender has waived the default of non-payment of certain pension plan contributions, but in the event that any government agency takes any enforcement action or otherwise exercises any rights or remedies it may have, this shall constitute a separate and distinct event of default and the senior lender may exercise any and all rights or remedies it may have. The Credit Agreement was settled in June 2013. The amounts outstanding under the Credit Agreement were collateralized by all of the Digital display assets.

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 250 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 on the same terms as previously offered. \$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 constituted 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 on the same terms as previously offered. \$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 constituted 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 2.2 million shares of Common Stock in exchange for the Notes. The Company recorded gains of \$60,000 in the six months ended June 30, 2012 (\$0.00 per share, basic and diluted) and \$8.8 million (\$3.21 per share, basic and diluted) in the year ended December 31, 2011, on debt extinguishment of principal and accrued interest on the Notes and Debentures that were exchanged.

As part of the restructuring plan, on November 14, 2011, the Company completed the sale of an aggregate of \$8.3 million of securities 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 20,825,000 shares of the Company's Common Stock, par value \$0.001 per share, and (ii) 4,165,000 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 50,000 shares of the Company's Common Stock, and 10,000 A Warrants. Each A Warrant entitles 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 \$0.20 per share. Each B Warrant entitles the holder to purchase one share of the Company's Common Stock at an exercise price of \$0.50 per share.

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 and 2010 waivers have been approved and granted subject to certain conditions, and have deferred payment of \$285,000 and \$559,000 of the minimum funding standard for the 2009 and 2010 plan years, respectively. The March 2013 waiver request would defer \$871,000 of the minimum funding standard for the 2012 plan year. If this waiver is not granted, 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. In 2012, the Company made \$559,000 of contributions to the plan. At this time, the Company is expecting to make its required contributions for the 2013 plan year and has already made

\$218,000 of contributions; however there is no assurance that we will be able to make any or all of such remaining payments. As of December 31, 2012, the Pension Benefit Guaranty Corporation has placed a lien on the Company's assets in respect of amounts owed under the plan.

Off-Balance Sheet Arrangements: The Company has no majority-owned subsidiaries that are not included in the consolidated financial statements nor does it have any interests in or relationships with any special purpose off-balance sheet financing entities.

Safe Harbor Statement under the Private Securities 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.

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ITEM 7A. 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 12 to the consolidated financial statements. A one-percentage point change in interest rates would result in an annual interest expense fluctuation of approximately \$10,000. In addition, the Company is exposed to foreign currency exchange rate risk mainly as a result of 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 \$355,000, based on dealer quotes, considering current exchange rates. The Company does not enter into derivatives for trading or speculative purposes and did not hold any derivative financial instruments at December 31, 2012.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Balance Sheets

In thousands, except share data	December 31	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$	1,164	\$ 1,109
Receivables, less allowance of \$64 - 2012 and \$884 - 2011		1,923	2,060
Unbilled receivables		51	63
Inventories		2,468	2,875
Prepays and other		521	704
Assets associated with discontinued operations (Note 4)		735	1,503
Total current assets		6,862	8,314
Rental equipment		38,442	43,252
Less accumulated depreciation		25,532	27,060
		12,910	16,192
Property, plant and equipment		2,435	2,970
Less accumulated depreciation		1,264	1,679
		1,171	1,291
Goodwill		744	744
Other assets		395	918
TOTAL ASSETS	\$	22,082	\$ 27,459
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	\$	1,135	\$ 1,589
Accrued liabilities		7,777	6,689
Current portion of long-term debt		2,487	2,045
Warrant liabilities		1,367	5,408
Liabilities associated with discontinued operations (Note 4)		1,767	2,445
Total current liabilities		14,533	18,176
Long-term debt:			
Notes payable		455	512

LIMITED TRADING VOLUME AND VOLATILITY OF STOCK PRICE

Deferred pension liability and other	5,014	4,914
Total liabilities	20,002	23,602
Redeemable convertible preferred stock:		
Preferred - \$0.001 par value - 500,000 shares authorized, 416,500 Series A convertible preferred shares issued in 2011	-	6,138
Stockholders' equity (deficit):		
Common - \$0.001 par value - 60,000,000 shares authorized, 25,895,424 common shares issued in 2012 and 5,070,424 common shares issued in 2011	26	5,071
Additional paid-in-capital	23,804	12,620
Accumulated deficit	(14,808)	(13,443)
Accumulated other comprehensive loss	(3,879)	(3,466)
Treasury stock - at cost - 383,596 common shares in 2012 and 2011	(3,063)	(3,063)
Total stockholders' equity (deficit)	2,080	(2,281)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 22,082	\$ 27,459
The accompanying notes are an integral part of these consolidated financial statements.		

Table of Contents**Consolidated Statements of Operations**

In thousands, except per share data	Years ended December 31	2012	2011
Revenues:			
Digital display sales	\$	16,065	\$ 15,990
Digital display lease and maintenance		6,956	7,767
Total revenues		23,021	23,757
Cost of revenues:			
Cost of digital display sales		12,811	13,977
Cost of digital display lease and maintenance		5,789	6,589
Total cost of revenues		18,600	20,566
Gross profit from operations		4,421	3,191
General and administrative expenses		(8,916)	(7,867)
Restructuring costs		(415)	(164)
Goodwill impairment		-	(66)
Operating loss		(4,910)	(4,906)
Interest expense, net		(297)	(1,217)
Gain on debt extinguishment		60	8,796
Change in warrant liabilities		4,041	(3,655)
Loss from continuing operations before income taxes		(1,106)	(982)
Income tax (expense) benefit		(23)	8
Loss from continuing operations		(1,129)	(974)
Loss from discontinued operations		(236)	(444)
Net loss	\$	(1,365)	\$ (1,418)
Loss per share continuing operations - basic and diluted	\$	(0.07)	\$ (0.36)
Loss per share discontinued operations - basic and diluted		(0.02)	(0.16)
Total loss per share - basic and diluted	\$	(0.09)	\$ (0.52)
Weighted average common shares outstanding - basic and diluted		15,441	2,738
The accompanying notes are an integral part of these consolidated financial statements.			

Consolidated Statements of Comprehensive Loss

In thousands	Years ended December 31	2012	2011
Net loss		\$ (1,365)	\$ (1,418)
Other comprehensive (loss) income:			
Unrealized foreign currency translation gain (loss)		96	(82)
Change in unrecognized pension costs		(509)	(1,396)
Total other comprehensive loss, net of tax		(413)	(1,478)
Comprehensive loss		\$ (1,778)	\$ (2,896)
The accompanying notes are an integral part of these consolidated financial statements.			

Table of Contents**Consolidated Statements of Stockholders' Equity
(Deficit)**

In thousands, except share data For the two years ended December 31, 2012	Preferred Stock		Common Stock		Add'l Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stock- holders' Equity (Deficit)
	Shares	Amt	Shares	Amt					
Balance									
January 1, 2011	-	\$ -	2,826,424	\$ 2,827	14,279	\$ (12,025)	(1,988)	\$ (3,063)	30
Net loss	-	-	-	-	-	(1,418)	-	-	(1,418)
Issuance of Common Stock (2,244,000 shares)	-	-	2,244,000	2,244	(1,683)	-	-	-	561
Issuance of Series A Convertible Preferred Stock (416,500 shares)	416,500	6,138	-	-	-	-	-	-	-
Stock compensation expense	-	-	-	-	24	-	-	-	24
Other comprehensive loss, net of tax:									
Unrealized foreign currency translation loss	-	-	-	-	-	-	(82)	-	(82)
Change in unrecognized pension costs	-	-	-	-	-	-	(1,396)	-	(1,396)
	416,500	6,138	5,070,424	5,071	12,620	(13,443)	(3,466)	(3,063)	(2,281)

Balance December 31, 2011									
Net loss	-	-	-	-	-	(1,365)	-	-	(1,365)
Exchange of Series A Convertible Preferred Stock (416,500 shares) for Common Stock (20,825,000 shares)	(416,500)	(6,138)	20,825,000	20,825	(14,689)	-	-	-	6,136
Par value of Common Stock reduced to \$0.001	-	-	-	(25,870)	25,870	-	-	-	-
Stock compensation expense	-	-	-	-	3				