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TRANS LUX CORP
Form 10-Q
November 17, 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 September 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
incorporation or organization)

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

110 Richards Avenue, Norwalk, CT

06856-5090

(Address of principal executive offices)

(Zip code)

(203) 853-4321

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer 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
11/16/06	Common Stock - \$1.00 Par Value	973,598
11/16/06	Class B Stock - \$1.00 Par Value	286,814

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(Immediately convertible into a like number of shares of Common Stock.)

TRANS-LUX CORPORATION AND SUBSIDIARIES

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Part I - Financial Information

TRANS-LUX CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except share data	September 30 2006	December 31 2005
-----	(unaudited)	(see Note 1)

ASSETS

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Current assets:		
Cash and cash equivalents	\$ 3,713	\$ 13,610
Available-for-sale securities	187	431
Receivables, less allowance of \$1,094 - 2006 and \$935 - 2005	8,801	6,321
Unbilled receivables	1,053	842
Inventories	6,381	5,658
Prepays and other	1,131	1,149
	-----	-----
Total current assets	21,266	28,011
	-----	-----
Rental equipment	94,525	91,648
Less accumulated depreciation	62,059	56,280
	-----	-----
	32,466	35,368
	-----	-----
Property, plant and equipment	39,582	39,188
Less accumulated depreciation	10,972	9,850
	-----	-----
	28,610	29,338
Goodwill	1,004	1,004
Other assets	6,258	6,829
	-----	-----
TOTAL ASSETS	\$89,604	\$100,550
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,381	\$ 2,821
Accrued liabilities	6,512	6,986
Current portion of long-term debt	2,545	14,145
	-----	-----
Total current liabilities	12,438	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	32,243	29,440
	-----	-----
	51,276	48,365
Deferred credits, deposits and other	2,441	2,859
Deferred income taxes	2,374	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	13,905	13,901
Retained earnings	17,435	18,883
Accumulated other comprehensive loss	(1,164)	(1,287)
	-----	-----
	32,916	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	21,075	22,396
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$89,604	\$100,550
	=====	=====

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

In thousands, except per share data	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30 2006	SEPTEMBER 30 2005	SEPTEMBER 30 2006	SEPTEMBER 30 2005
Revenues:				
Equipment rentals and maintenance	\$ 3,340	\$ 3,837	\$10,347	\$11,442
Equipment sales	8,645	8,283	20,435	19,395
Theatre receipts and other	3,452	3,236	9,974	9,632
Total revenues	15,437	15,356	40,756	40,469
Operating expenses:				
Cost of equipment rentals and maintenance	3,002	3,188	8,910	9,379
Cost of equipment sales	5,864	5,602	14,590	13,090
Cost of theatre receipts and other	2,474	2,425	7,089	7,072
Total operating expenses	11,340	11,215	30,589	29,541
Gross profit from operations	4,097	4,141	10,167	10,928
General and administrative expenses	(3,022)	(3,198)	(9,502)	(9,819)
Interest income	47	63	248	264
Interest expense	(1,109)	(1,076)	(3,397)	(3,116)
Gain on sale of assets	-	-	-	108
Other income	9	22	27	74
Income (loss) from operations before income from joint venture and income taxes	22	(48)	(2,457)	(1,561)
Income from joint venture	123	74	326	253
Income tax (provision) benefit	(84)	(15)	726	496
Net income (loss)	\$ 61	\$ 11	\$ (1,405)	\$ (812)
Earnings (loss) per share - basic and diluted	\$ 0.04	\$ 0.01	\$ (1.12)	\$ (0.64)
Average common shares outstanding - basic and diluted	1,260	1,260	1,260	1,261
Cash dividends per share:				
Common stock	\$ -	\$ 0.035	\$ 0.035	\$ 0.105
Class B stock	\$ -	\$0.0315	\$0.0315	\$0.0945

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

In thousands	NINE MONTHS ENDING SEPTEMBER	
	2006	
Cash flows from operating activities		
Net loss	\$ (1,405)	\$
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,145	
Income from joint venture	(326)	
Deferred income taxes	(615)	
Gain on sale of assets	-	
Loss (gain) on sale of available-for-sale securities	15	
Changes in operating assets and liabilities:		
Receivables	(2,691)	(
Inventories	(723)	
Prepays and other assets	(207)	
Accounts payable and accruals	196	(
Deferred credits, deposits and other	(418)	
Net cash provided by operating activities	971	
Cash flows from investing activities		
Equipment manufactured for rental	(2,877)	
Purchases of property, plant and equipment	(394)	
Purchases of available-for-sale securities	-	
Proceeds from sale of available-for-sale securities	257	
Proceeds from joint venture, net	878	
Proceeds from sale of assets	-	
Net cash used in investing activities	(2,136)	
Cash flows from financing activities		
Proceeds from long-term debt	6,250	
Payments of long-term debt	(14,939)	
Cash dividends	(43)	
Purchase of treasury stock	-	
Net cash provided by (used in) financing activities	(8,732)	
Net decrease in cash and cash equivalents	(9,897)	
Cash and cash equivalents at beginning of year	13,610	
Cash and cash equivalents at end of period	\$ 3,713	\$

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Interest paid	\$ 3,650	\$
Income taxes paid	253	

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TRANS-LUX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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 September 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 condensed consolidated balance sheet at December 31, 2005 is derived from the December 31, 2005 audited financial statements.

The Company has incurred losses for the nine months ended September 30, 2006 of \$1,405,000 and \$1,793,000 for the year ended December 31, 2005, however it has income of \$61,000 for the three months ended September 30, 2006. The Company has positive working capital of \$8.8 million as of September 30, 2006 and a positive cash flow from operations for the nine months ended September 30, 2006 and 2005 of \$971,000 and \$399,000, respectively. Management believes that its current cash resources will be sufficient to fund its operations and its current obligations through September 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 the adoption of SFAS 123(R). Stock-based compensation expense related to stock options recognized under SFAS 123(R) for the nine months ended September 30, 2006 was approximately \$3,000, net of tax. See Note 5 - Stock Option Plans, for additional disclosures.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"), which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). This statement amends SFAS 133 to permit fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation. This statement also eliminates the interim guidance in SFAS No. 133 Implementation Issue D-1, which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS 133. Finally, this statement amends SFAS 140 to eliminate the restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. This statement is effective for all financial instruments acquired or issued in first fiscal years beginning after September 15, 2006. Management is assessing the potential impact of SFAS 155 on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS 156"), that provides guidance on accounting for separately recognized servicing assets and servicing liabilities. In accordance with the provisions of SFAS 156, separately recognized servicing assets and servicing liabilities must be initially measured at fair value, if practicable. Subsequent to initial recognition, the Company may use either the amortization method or the fair value measurement method to account for servicing assets and servicing liabilities within the scope of this statement. The Company will adopt SFAS 156 in fiscal year 2007. The adoption of this statement is not expected to have a material effect on the Company's financial condition and results of operations.

In April 2006, the FASB issued FSP FIN 46R-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46R" which requires the variability of an entity to be analyzed based on the design of the entity. The nature and risks in the entity, as well as the purpose for the entity's creation are examined to determine the variability in applying FIN 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"). The variability is used in applying FIN 46R to determine whether an entity is a variable interest entity, which interests are variable interests in the entity, and who is the primary beneficiary of the variable interest entity. This statement is effective for all reporting periods beginning after June 15, 2006. Management does not expect this statement to have a significant impact on the Company's financial condition and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, "Accounting for Income Taxes." The interpretation clearly scopes out income tax positions related to FASB Statement No. 5, "Accounting for Contingencies." The Company will adopt the provisions of this statement on July 1, 2007. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings on July 1, 2007. Management does not anticipate that the

adoption of this statement will have a material effect on the Company's financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157") that defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands the disclosures about fair value measurement. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management is assessing the potential impact of SFAS 157 on the Company's financial condition and results of operations.

Note 2 - Inventories

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

In thousands	September 30 2006	December 31 2005
Raw materials	\$4,119	\$3,740
Work-in-progress	1,543	1,411
Finished goods	719	507
	-----	-----
	\$6,381	\$5,658
	=====	=====

Note 3 - Long-Term Debt

During the nine months ended September 30, 2006, long-term debt, including current portion, decreased \$8.7 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 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 nine months ended September 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 received 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 was amended subsequent to the end of the quarter, 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 September 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 September 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

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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,

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which include a fixed charge coverage ratio of 1.1 to 1.0, a loan-to-value ratio of not more than 50%, a leverage ratio of 3.0 to 1.0, a cap on capital expenditures, maintaining a tangible net worth of not less than \$18.5 million and maintaining accounts with an average monthly compensating balance of not less than \$750,000. At September 30, 2006, the Company was in compliance with all the financial covenants as set forth in the amended Credit Agreement.

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, which were redeemed on June 15, 2006, and the Company's 9 1/2% Subordinated Debentures (the "Debentures") due 2012.

Note 4 - Reporting Comprehensive Income/Loss

Total comprehensive income (loss) for the three and nine months ended September 30, 2006 and 2005 is as follows:

In thousands	Three months ended September 30		Nine mont
	2006	2005	
Net income (loss)	\$61	\$ 11	\$ (1
	---	---	---
Other comprehensive income (loss):			
Unrealized foreign currency translation gain (loss)	(4)	126	
Unrealized holding gain (loss) on securities	11	(14)	
Income taxes related to other comprehensive income (loss) items	(4)	5	
	---	---	---
Total other comprehensive income (loss), net of tax	3	117	
	---	---	---
Comprehensive income (loss)	\$64	\$128	\$ (1
	===	====	===

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

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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.

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The following summarizes the activity of the Company's stock options for the nine months ended September 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	500	5.95		
Exercised	-			
Terminated	(500)	5.38		

Outstanding at end of period	71,300	6.11	4.3	
	=====		===	
Vested and expected to vest at end of period	71,300	6.11	4.3	206,000
	=====		===	
Exercisable at end of period	70,800	6.11	4.3	205,000
	=====		===	

As of September 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 next four fiscal quarters.

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 income (loss) and earnings (loss) per share for the three and nine months ended September 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	Three months ended September 30, 2005	Nine months ended September 30, 2005
In thousands, except per share data		
Net income (loss), as reported	\$ 11	\$ (812)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	1	8
	-----	-----

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Pro forma net income (loss)	\$ 10	\$ (820)
Basic earnings (loss) per share:		
As reported	\$0.01	\$(0.64)
Pro forma	\$0.01	\$(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 nine months ended September 30	
	2006	2005
Expected dividend yield	-	2.06%
Expected volatility	42.00%	43.00%
Risk free interest rate	4.76%	4.59%
Expected life (in years)	4.0	4.0

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Note 6 - Business Segment Data

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

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

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

	Three months ended September 30		Nine months en
In thousands	2006	2005	2006

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Revenues:			
Indoor display	\$ 3,975	\$ 4,080	\$10,300
Outdoor display	8,010	8,040	20,482
Entertainment/real estate	3,452	3,236	9,974
	-----	-----	-----
Total revenues	15,437	15,356	40,756
	=====	=====	=====
Operating income (loss):			
Indoor display	444	353	(91)
Outdoor display	999	911	1,526
Entertainment/real estate	906	712	2,640
	-----	-----	-----
Total operating income	2,349	1,976	4,075
Other income	9	22	27
Corporate general and administrative expenses	(1,151)	(959)	(3,084)
Interest expense - net	(1,062)	(1,013)	(3,149)
Income tax benefit (expense)	(84)	(15)	726
	-----	-----	-----
Net income (loss)	\$ 61	\$ 11	\$ (1,405)
	=====	=====	=====

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 September 30, 2006 and 2005.

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

In thousands	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Interest cost	\$ 153	\$ 156	\$ 459	\$ 466
Expected return on plan assets	(163)	(156)	(489)	(466)
Amortization of prior service cost	4	4	12	1
Amortization of net actuarial loss	77	67	231	20
	-----	-----	-----	-----
Net periodic pension cost	\$ 71	\$ 71	\$ 213	\$ 21
	=====	=====	=====	=====

There is no minimum required contribution for 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

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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 nine months ended September 30, 2006 and 2005, and summary balance sheet information relates to MetroLux as of September 30, 2006 and December 31, 2005:

Summary results of operations

In thousands	Three months ended September 30		Nine months ended
	2006	2005	2006
Revenues	\$1,434	\$765	\$3,882
Gross profit	845	443	2,272
Net income	247	149	653
Company's share of partnership net income	123	74	326

Summary balance sheets

In thousands	September 30	December 31
	2006	2005
Current assets	\$ 326	\$3,623
Noncurrent assets	1,842	2,021
Total assets	2,168	5,644
Current liabilities	399	2,751
Noncurrent liabilities	860	883
Total liabilities	1,259	3,634
Company's equity in partnership net assets	\$ 532	\$1,047

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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 \$0.9 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 \$37,000 at September 30, 2006. The unrelated 50% partner of MetroLux also guaranteed \$0.7 million (75%) of the \$0.9 million business loan. The assets of MetroLux collateralize this business loan.

Note 10 - Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is based upon weighted average common shares outstanding. Diluted earnings (loss) per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect of stock options and convertible debt using the treasury stock and if converted methods. However, for the three and nine month periods ended

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September 30, 2006 and 2005, the assumed exercise or conversion of any of these securities would be anti-dilutive; and, accordingly, diluted earnings (loss) per share basic equals earnings (loss) per share for each period.

The number of such shares as of September 30, 2006 and September 30, 2005 subject to convertible debt was 1,994,000 and 1,985,000, respectively. The number of such shares as of September 30, 2006 and September 30, 2005 subject to stock options was 70,800 and 69,300, respectively.

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, banking, gaming, corporate, retail and transportation 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.

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Results of Operations

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Total revenues for the nine months ended September 30, 2006 increased \$287,000 or 0.7% to \$40.8 million from \$40.5 million for the nine months ended September 30, 2005, principally due to increases in Outdoor display sales revenues and Entertainment/real estate revenues, offset by decreases in Indoor display rentals and maintenance revenues and sales revenues.

Indoor display revenues decreased \$1.0 million or 9.0%. Of this decrease, Indoor display equipment rentals and maintenance revenues decreased \$909,000 or 12.5%, 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 \$113,000 or 2.8%, primarily due to a reduction in sales to the financial services market. The financial services market continues to be negatively impacted by the current consolidations 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 \$967,000 or 5.0%. Of this increase, Outdoor display equipment sales increased \$1.2 million or 7.5%, primarily in the outdoor catalog sports market. Outdoor display equipment rentals and maintenance

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revenues decreased \$186,000 or 4.4%, 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 \$342,000 or 3.6%, primarily due to an increase in both box office revenues and concession sales.

Total operating income for the nine months ended September 30, 2006 decreased 15.7% to \$4.1 million from \$4.8 million for the nine months ended September 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 \$1.1 million to an operating loss of \$91,000, 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 73.1% 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 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 \$378,000 or 21.6%, 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 expenses decreased \$61,000 or 2.1%, primarily due to an \$86,000 decrease in the allowance for doubtful accounts receivable, offset by an increase in travel costs and commissions. Cost of Indoor display equipment rentals and maintenance includes field service expenses, plant repair costs,

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maintenance and depreciation.

Outdoor display operating income increased \$75,000 or 5.2%, primarily as a result of a decrease of \$291,000 in field service costs, offset by the product mix and a \$50,000 non-recurring material cost. 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 78.0% of related revenues in 2006 compared to 77.5% in 2005. Outdoor display cost of equipment sales increased \$1.1 million or 9.9%, principally due to the increase in volume from the outdoor catalog sports market. Outdoor display cost of equipment rentals and maintenance decreased \$273,000 or 7.2%, primarily due to a decrease in field service costs. Outdoor display general and administrative expenses increased \$43,000 or 1.5%, primarily due to an increase in 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 \$310,000 or 13.3%, primarily due to an increase in box office revenues and concession sales. The cost of Entertainment/real estate represented 71.1% 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, primarily due to the reduction in certain operating expenses. Entertainment/Real Estate general and administrative expenses increased \$88,000 or 18.2%, primarily due to increased salaries and benefits.

Corporate general and administrative expenses decreased \$387,000 or 11.1%, primarily due to reductions in insurance expense, payroll and benefits, and a

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\$10,000 increase in the currency exchange gain in 2006.

Net interest expense increased \$297,000 or 10.4%, 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 nine months ended September 30, 2006 and 2005 were 34.1% and 37.9%, respectively.

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

Total revenues for the three months ended September 30, 2006 remained level at \$15.4 million compared to the three months ended September 30, 2005, principally due to increases in both Indoor and Outdoor display sales revenues and Entertainment/real estate revenues, offset by decreases in both the Indoor and Outdoor display rentals and maintenance revenues.

Indoor display revenues decreased \$105,000 or 2.6%. Of this decrease, Indoor display equipment rentals and maintenance revenues decreased \$353,000 or 14.9%, 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 increased \$248,000 or 14.5%, primarily due to an increase in

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sales to the international financial services market. The financial services market continues to be negatively impacted by the current consolidations 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 decreased \$30,000 or 0.4%. Of this decrease, Outdoor display equipment rentals and maintenance revenues decreased \$144,000 or 9.8%, primarily due to the continued expected gradual revenue decline in the older Outdoor display equipment rental and maintenance bases acquired in the early 1990s. Outdoor display equipment sales increased \$114,000 or 1.7%, primarily in the outdoor catalog sports market.

Entertainment/Real Estate revenues increased \$216,000 or 6.7%, primarily due to an increase in both box office revenues and concession sales.

Total operating income for the three months ended September 30, 2006 increased \$373,000 to \$2.3 million from \$2.0 million for the three months ended September 30, 2005, principally due to the decrease in general and administrative costs and the increases in box office and concession revenues of the Entertainment/real estate segment and an increase in volume from the outdoor catalog sports market of the Outdoor display segment.

Indoor display operating income increased \$91,000 or 25.8%, primarily as a result of a decrease in general and administrative costs, offset by 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 70.2% of related revenues in 2006 compared to 66.8% 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 reduced the cost of field service by \$42,000 during the three months ended September 30,

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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 \$149,000 or 18.3%, primarily due to the increase in revenues. Indoor display general and administrative expenses decreased \$258,000 or 25.8%, primarily due to a decrease in the allowance for doubtful accounts receivable. 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 9.7%, primarily as a result of a decrease of \$103,000 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 75.9% of related revenues in 2006 compared to 75.4% in 2005. Outdoor display cost of equipment sales increased \$113,000 or 2.4%, principally due to the increase in volume from the outdoor catalog sports market. Outdoor display cost of equipment rentals and maintenance decreased \$99,000 or 7.8%, primarily due to a decrease in field service costs. Outdoor display general and administrative expenses decreased \$132,000 or 12.4%, 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.

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Entertainment/Real Estate operating income increased \$194,000 or 27.2%, primarily due to an increase in both box office revenues and concession sales. The cost of Entertainment/real estate represented 71.7% of related revenues in 2006 compared to 74.9% in 2005. Cost of Entertainment/real estate, which includes film rental costs and depreciation expense, increased \$49,000 or 2.0%, primarily due to an increase in box office revenues. Entertainment/Real Estate general and administrative expenses increased \$22,000 or 12.7%, primarily due to increased salaries and benefits.

Corporate general and administrative expenses increased \$192,000 or 20.0%, primarily due to a \$136,000 reduction in the currency exchange gain in 2006 and an increase in certain overhead expenses.

Net interest expense increased \$49,000 or 4.8%, 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 September 30, 2006 and 2005 were 57.9% and 57.7%, respectively.

Liquidity and Capital Resources

On September 25, 2006, the Board of Directors of the Corporation did not declare a regular quarterly cash dividend for the third quarter of 2006 in order to conserve cash and prepay the 7 1/2% Notes at the end of the second quarter.

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 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 was amended subsequent to the end

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of the quarter, 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 September 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 September 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, a loan-to-value ratio of not more than 50%, a leverage ratio of 3.0 to 1.0, a cap on capital expenditures, maintaining a tangible net worth of not

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less than \$18.5 million and maintaining accounts with an average monthly compensating balance of not less than \$750,000. At September 30, 2006, the Company was in compliance with all the financial covenants as set forth in the amended Credit Agreement.

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, which were redeemed on June 15, 2006, 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 contractual obligations as of September 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	\$1,711	\$7,365	\$20,199	\$3,879	\$3,826
Employment and consulting agreement obligations	411	1,648	1,416	841	464
Operating lease payments	188	548	450	316	293
Total	\$2,310	\$9,561	\$22,065	\$5,036	\$4,583

Cash and cash equivalents decreased \$8.7 million for the nine months ended September 30, 2006 compared to a decrease of \$4.4 million in 2005. The decrease

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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 \$1.6 million of scheduled payments of long-term debt, and made investments in equipment for rental, offset by the proceeds from the joint venture and cash provided by operating activities of \$971,000. The 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, offset by cash provided by operating activities of \$399,000.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is subject to interest rate risk on its long-term debt. The Company manages its exposure to changes in interest rates by the use of variable and fixed interest rate debt. 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 September 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 \$327,000. A 10% change in the Canadian dollar relative to the U.S. dollar would result in a currency exchange expense fluctuation of approximately \$137,000, 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

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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.

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

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 nine months ended September 30, 2006 of \$1,405,000 and \$1,793,000 for the year ended December 31, 2005, however it has income of \$61,000 for the three months ended September 30, 2006. The Company has positive working capital of \$8.8 million as of September 30, 2006 and a positive cash flow from operations for the nine months ended September 30, 2006 and 2005 of \$971,000 and \$399,000, respectively. Management believes that its current cash resources will be sufficient to fund its operations and its current obligations through September 30, 2007.

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 September 25, 2006, stating that the Board of Directors accepted the resignations of Messrs. Baruch and Greenes from the Board of Directors.

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.

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- 32.1 Certification of Michael R. Mulcahy, President and Co-Chief Executive

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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: November 17, 2006

by /s/ Angela D. Toppi

Angela D. Toppi
Executive Vice President and
Chief Financial Officer