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Trans-Lux Corporation

2020 3 20 2019

2019 Trans-Lux Corporation

	17,035	14,399	18.31%
	-1,402	-4,694	70.13%
	-4,337	-1,068	-306.09%
/	-0.13	-1.88	93.09%
	12,254	11,466	6.87%
	-1,744	-7,764	77.54%

Trans-Lux Corporation 2019

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Digital Product Sales Division:

Digital product Lease and Maintenance Division:

Sales Order Backlog (excluding leases):

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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 essential 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 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.

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 Centers from its facilities in Urbandale, Iowa and Hazelwood, Missouri. Equipment repairs are performed in Urbandale, Iowa and service technicians are dispatched nationwide from various locations including Urbandale and Hazelwood. 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 product business. The Company believes that it is the largest supplier of large-scale stock, commodity, sports and race book gaming digital products in the United States, as well as one of the larger digital product 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.

INTELLECTUAL PROPERTY

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

EMPLOYEES

The Company had approximately 50 employees as of March 1, 2020, none of whom are unionized. The Company believes its employee relations are good.

ITEM 1A. RISK FACTORS

WE HAVE EXPERIENCED OPERATING LOSSES FOR THE PAST SEVERAL YEARS, AND 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

We have incurred operating losses for the past several years. During the years ended December 31, 2019 and 2018, we incurred losses of $1.4 million and $4.7 million, respectively. We are dependent upon future operating performance and, to the extent that operating performance falls short of our needs, future financing to generate sufficient cash flows to continue to run our businesses. Future operating performance t we

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WE HAVE SIGNIFICANT DEBT, WHICH COULD IMPAIR OUR FINANCIAL CONDITION

As of December 31, 2019, we had outstanding debt of approximately $2.2 million (including $650,000 of a forgivable loan), $1.6 million of which was reflected under current portion of long-term

OUR SUCCESS IS PARTIALLY DEPENDENT UPON OUR ABILITY TO OBTAIN THE RENEWAL OF EXISTING LEASES OR ENTER INTO NEW LEASES AS OUR CURRENT LEASES EXPIRE, WHICH MAY NOT BE FEASIBLE. THE INABILITY TO RENEW OR REPLACE OUR LEASES WOULD NEGATIVELY AFFECT OUR OPERATIONS

We derive a substantial percentage of our revenues from the leasing of our digital products, 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 one to five years. A portion of the maintenance agreements is cancelable upon 30 days notice. There can be no assurance that we will be successful

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CONCENTRATION OF OWNERSHIP AMONG OUR PRINCIPAL STOCK HOLDERS MAY LIMIT OUR OTHER STOCKHOLDERS FROM INFLUENCING SIGNIFICANT COMPANY DECISIONS

As of March 19, 2020, one stockholder,

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PART II

Critical Accounting Policies and Estimates

Uncollectible Accounts Receivable:

Slow-Moving and Obsolete Inventories:

Rental Equipment:

Contingencies and Litigation:

Liquidity and Capital Resources

Current Liquidity

The Company used cash for operating activities of $4.3 million and $1.1 million in the years ended December 31, 2019 and 2018, respectively. The Company has implemented several initiatives to improve operational results and cash flows over future periods, including reducing headcount, reorganizing its sales department

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

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statement that is not a statement of historical fact should

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Trans-Lux Corporation

We have audited the accompanying consolidated balance sheets of Trans-Lux Corporation and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in stockholders' deficit, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-12, Leases (Topic 842), as amended, effective January 1, 2019, using the modified retrospective approach.

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance

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TRANS-LUX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

In thousands, except share data	December 31 2019	December 31 2018
Current assets:		
Cash and cash equivalents	$ 535	$ 723
Receivables, net	2,381	2,271
Inventories	2,182	2,201
Prepaids and other assets	807	417
Total current assets	5,905	5,612
Long-term assets:		
Rental equipment, net	927	1,310
Property, plant and equipment, net	2,284	2,180
Right of use assets	1,141	-
Goodwill	744	744
Restricted cash	850	900
Other assets	403	720
Total long-term assets	6,349	5,854
	$ 12,254	$ 11,466
Current liabilities:		
Accounts payable	$ 945	$ 3,728
Accrued liabilissel609c[LIAB)-4.709.2c932,284 2,180 Ct7(deb)-2.2(, net)]TJ59.46 0 TD0 T1,5 0 0,584,182 2,201 4		

bils.3(s)5.7(h)]TJ60.21 0 TD0 Tc9.5 -(850 900)T]-60.21 -1.1 TD-.0014 Tc.00069Tw-

TRANS-LUX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share data	Year Ended December 31 2019	2018
Digital product sales	$ 14,710	$ 11,958
Digital product lease and maintenance	2,325	2,441
Total revenues	17,035	14,399
Cost of digital product sales	12,273	10,094
Cost of digital product lease and maintenance	775	1,234
Total cost of revenues	13,048	11,328
	3,987	3,071
General and administrative expenses	(4,132)	(7,117)
Restructuring costs	(306)	-
	(451)	(4,046)
Interest expense, net	(504)	(940)
(Loss) gain on foreign currency remeasurement	(130)	225
Loss on extinguishment of debt	(193)	-
Gain on sale/leaseback transaction	-	11
Pension (expense) benefit	(83)	103
	(1,361)	(4,647)
Income tax expense	(41)	(47)
	$ (1,402)	$ (4,694)
Loss per share - basic and diluted	$ (0.13)	$ (1.88)

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

TRANS-LUX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

In thousands	Year Ended December 31 2019	2018
Net loss	$ (1,402)	$ (4,694)
Other comprehensive income (loss):		
Unrealized foreign currency translation income (loss)	118	(205)
Change in unrecognized pension costs	(342)	(653)
Total other comprehensive loss, net of tax	(224)	(858)
Comprehensive loss	$ (1,626)	$ (5,552)

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

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TRANS-LUX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

	Preferred Stock	Add'l Paid-in Capital	Accumulated Other Comprehensive Loss	Total Stock-holders' Deficit

TRANS-LUX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	Year Ended December 31 2019	2018
Cash flows from operating activities		
Net loss	$ (1,402)	$ (4,694)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	668	952
Amortization of right of use assets	373	-
Amortization of gain on sale/leaseback transaction	-	(11)
Amortization of deferred financing fees and debt discount	96	238
Loss on disposal of assets	32	-
Loss on extinguishment of debt	193	-
Loss (gain) on foreign currency remeasurement	130	(225)
Issuance of common stock for compensation	-	10
Bad debt expense	(93)	1,550
Changes in operating assets and liabilities:		
Accounts receivable, net	(18)	(300)
Inventories	19	(37)
Prepaids and other assets	(73)	1,206
Accounts payable	(2,783)	950
Accrued liabilities	(254)	615
Operating lease liabilities	(369)	-
Customer deposits	(309)	(703)
Deferred pension liability and other	(547)	(619)
Net cash used in operating activities	(4,337)	(1,068)
Cash flows from investing activities		
Equipment manufactured for rental	(44)	-
Purchases of property, plant and equipment	(377)	(140)
Net cash used in investing activities	(421)	(140)
Cash flows from financing activities		
Proceeds from long-term debt	-	1,000
Issuance of common stock	-	1,500
Proceeds from warrant exercise, net of costs	5,298	-
Proceeds from rights offering, net of costs	2,428	-
Payments of long-term debt	(3,037)	(1,483)
Payments of dividends on preferred stock	(80)	(99)
Payments for deferred financing fees	(25)	-
Payments for fees on extinguishment of debt	(62)	-
Net cash provided by financing activities	4,522	918
Effect of exchange rate changes	(2)	4
Net decrease in cash, cash equivalents and restricted cash	(238)	(286)
Cash, cash equivalents and restricted cash at beginning of year	1,623	1,909
Cash, cash equivalents and restricted cash at end of period	$ 1,385	$ 1,623
Supplemental disclosure of cash flow information:		
Interest paid	$ 239	$ 555
Income taxes paid	22	26
Supplemental non-cash financing activities:		

Notes To Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Trans-Lux Corporation is a leading designer and manufacturer of digital signage display solutions. The Company sells and leases its digital signage display solutions.

Principles of consolidation: The Consolidated Financial Statements include the accounts of Trans-Lux Corporation, a Delaware corporation, and all wholly-owned subsidiaries (collectively, the "Company"). Intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period in which the change is determined. Estimates are used when accounting for such items as costs of long-term sales contracts, allowance for uncollectible accounts, inventory valuation allowances, depreciation and amortization, valuation of pension obligations, valuation of warrants, income taxes, warranty reserve, management's assessment of going concern, contingencies and litigation.

Cash and cash equivalents: The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company has deposits in United States financial institutions that maintain Federal Deposit Insurance Corporation ("FDIC") deposit insurance on all interest and non-interest-bearing accounts, collectively, with an aggregate coverage up to $250,000 per depositor per financial institution. At times, the amount of the deposits exceeds the FDIC limits. The portion of the deposits in excess of FDIC limits represents a credit risk of the Company.

1 *Accounts receivable, net*3 Accounts receivable are carried at net realizable value. Credit is extended based on art evaluation of each customer's financial condition; collateralt ron; enagate coveran(overa(g)-.8(al)-1

The Company annually evaluates the value of its goodwill on October 1 and determines if it is impaired by comparing the carrying value of goodwill to its estimated fair value. Changes in the assumptions used could materially impact the 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. The Company uses the income and the market approach when testing for goodwill impairment. 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 uses a discounted cash flow model to determine the fair value under the income approach which contemplates a conservative overall weighted average revenue growth rate. If the Company were to reduce its revenue projections on the reporting unit by 5.5% within the income approach, the fair value of the reporting unit would be below carrying value. The gross profit margins used are consistent with historical margins achieved by the Company during previous years. If there is a margin decline of 6.7% 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 impairment test for goodwill is a two-step process. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, a second step is performed to calculate the implied fair value of the goodwill of the reporting unit by deducting the fair value of all of the individual assets and liabilities of the reporting unit from the respective fair values of the reporting unit as a whole. To the extent the calculated implied fair value of the goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference. Fair value is determined using cash flow and other valuation models (generally Level 3 inputs in the fair value hierarchy described in Note 4 – Fair Value). There was no impairment of goodwill in 2019 or 2018.

Impairment or disposal of long-lived assets: The Company evaluates whether there has been an impairment in value of its long-lived assets if certain circumstances indicate that a possible impairment may exist. An impairment in value may exist when the carrying value of a long-lived asset exceeds its undiscounted cash flows. If it is determined that an impairment in value has occurred, the carrying value is written down to its fair value as determined by a discounted cash flow model. There were no impairments of long-lived assets in 2019 or 2018.

Restricted cash: The Company classifies cash as restricted when the cash is unavailable for withdrawal or usage for general operations. Restrictions may include legally restricted deposits, contracts entered into with others, or the Company's statements of intention with regard to particular deposits. The Company had Restricted cash in 2019 and 2018 for letters of credit in connection with the forgivable loan ($650,000 in 2019 and 2018) and security deposits ($200,000 in 2019 and $250,000 in 2018). During 2019, a security deposit was reduced by $50,000. The Company has presented these funds in Restricted cash in the Consolidated Balance Sheets since the use of the funds under the letters of credit is restricted.

Shipping Costs: The costs of shipping product to our customers of $436,000 and $487,000 in 2019 and 2018, respectively, are included in Cost of digital product sales.

Advertising/Marketing Costs: The Company expenses the costs of advertising and marketing at the time that the related advertising takes place. Advertising and marketing costs of $43,000 and $174,000 in 2019 and 2018, respectively, are included in General and administrative expenses.

Revenue recognition: See Note 3 – Revenue Recognition.

Warranty reserve: 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.

Taxes on income: Deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates expected to be in effect when such temporary differences are expected to reverse and for operating loss carryforwards. The lueary differences are prim arily attributable to operating loss carryforwards, depreciation and the pension plan. The Company records a valuation allowance against net deferred income tax assets if, based upon the available evidence, it is more-likely-than-not that the deferred income tax assets will not be realized.

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The following new accounting pronouncements, and related impacts on adoption, are being evaluated by the Company:

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. ASU 2017-04 simplifies the test for goodwill impairment. Public business entities should apply the amendments in ASU 2017-04 for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years (i.e., January 1, 2020), early application is permitted. The Company does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)*. ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Public business entities should apply the amendments in ASU 2018-14 for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years (i.e., January 1, 2021). Early application is permitted. The Company does not expect the adoption of this standard to have a material effect on the Company's consolidated financial position and results of operations.

The Company has incurred recurring losses and has a working capital deficiency. The Company incurred a net loss of $1.4 million in 2019 and had a working capital deficiency of $3.1 million as of December 31, 2019.

The Company is dependent on future operating performance in order to generate sufficient

Contracts with customers may contain multiple performance obligations. For such arrangements, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling prices of the promised products or services underlying each performance obligation. The Company determines standalone selling prices based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

When determining the transaction price of a contract, an adjustment is made if payment from a customer occurs either significantly before or significantly after performance, resulting in a significant financing component. Applying the practical expedient in paragraph 606-10-32-18, the Company does not assess whether a significant financing component exists if the period between when the Company performs its obligations under the contract and when the customer pays is one year or less. None of the Company's contracts contained a significant financing component as of December 31, 2019.

In March 2016, the FASB issued updated lease accounting guidance ("Topic 842"), as explained further in Note 9 – Leases. We adopted Topic 842 on January 1, 2019. Topic 842 is an update to Topic 840, which was the lease accounting standard in place through December 31, 2018. There were no significant changes to our revenue accounting upon adoption of Topic 842.

We recognize revenue in accordance with two different accounting standards: 1) Topic 606 and 2) Topic 842. Under Topic 606, revenue from contracts with customers is measured based on the consideration specified in the contract with the customer, and excludes any sales incentives and amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer, and is the unit of account under Topic 606. Our contracts with customers generally do not include multiple performance obligations. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for such products or services.

The following table represents a disaggregation of revenue from contracts with customers for the years ended December 31, 2019 and 2018, along with the reportable segment for each category:

In thousands		2018
Digital product sales:		
Catalog and small customized products	$	$ 10,958
Large customized products		1,000
Subtotal		11,958
Digital product lease and maintenance:		
Operating leases		1,413
Maintenance agreements		1,028
Subtotal		2,441
Total	$	$ 14,399

The Company has two primary revenue streams which are Digital product sales and Digital product lease and maintenance.

Digital Product Sales

The Company recognizes net revenue on digital product sales to its distribution partners and to end users related to digital display solutions and fixed digit scoreboards. For the Company's catalog products, revenue is generally recognized when the customer obtains control of the Company's product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract. For the Company's customized products, revenue is either recognized at a point in time or over time depending on the size of the contract. For those customized product contracts that are smaller in size, revenue is generally recognized when the customer obtains control of the Company's product, which occurs at a point in time, and may be upon shipment or upon delivery based on the contractual shipping terms of a contract. For those customized product contracts that are larger in size, revenue is recognized over time based on incurred costs as compared to projected costs using the input method, as this best reflects the Company's progress in transferring control of the customized product to the customer. The Company may also contract with a customer to perform installation services of digital display products. Similar to the larger customized products, the Company recognizes the revenue associated with installation services using the input method, whereby the basis is the total contract costs incurred to date compared to the total expected costs to be incurred.

Revenue on sales to distribution partners are recorded net of prompt-pay discounts, if offered, and other deductions. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing the most likely amount method to which the Company expects to be entitled. In the case of prompt-pay discounts, there are only two possible outcomes: either the customer pays on-time or does not. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available. The Company believes that the estimates it has established are reasonable based upon current facts and circumstances. Applying different judgments to the same facts and circumstances could result in the estimated amounts to vary. The Company offers an assurance-type warranty that the digital display products will conform to the published specifications. Returns may only be made subject to this warranty and not for convenience.

Digital Product Lease and Maintenance

Lease and maintenance contracts generally run for periods of one month to 10 years. A contract entered into by the Company with a customer may contain both lease and maintenance services (either or both services may be agreed upon based on the individual customer contract). Maintenance services may consist of providing labor, parts and software maintenance as may be required to maintain the customer's equipment in proper operating condition at the customer's service location. The Company concluded the lease and maintenance services represent a series of distinct services and the most representative method for measuring progress towards satisfying the performance obligation of these services is the input method. Additionally, maintenance services require the Company to "stand ready" to provide support to the customer when and if needed. As there is no discernable pattern of efforts other than evenly over the lease and maintenance terms, the Company will recognize revenue straight-line over the lease and maintenance terms of service.

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The Company has an enforceable right to payment for performance

The Company accounts for shipping and handling activities related to contracts with customers as costs to fulfill the promise to transfer the associated products. When shipping and handling costs are incurred after a customer obtains control of the products, the Company also has elected to account for these as costs to fulfill the promise and not as a separate performance obligation. Shipping and handling costs associated with the distribution of finished products to customers are recorded in costs of goods sold and are recognized when the related finished product is shipped to the customer.

The Company carries the cash surrender value of life insurance related to its deferred compensation arrangements at fair value. Under ASC 820, the fair value of all assets and liabilities is determined using a three-tier fair value hierarchy.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – Inputs to the valuation methodology based on unadjusted quoted market prices in active markets that are accessible at the measurement date.
- Level 2 – Inputs to the valuation methodology that include quoted market prices that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

Based on this hierarchy, the Company determined the fair value of the cash surrender value of life insurance, a Level 2 based on observable inputs primarily from the counter party. The Company's cash surrender value of life insurance had a carrying amount of $55,000 at December 31, 2019 and 2018, and is included in Other assets in the Consolidated Balance Sheets. The carrying amounts of cash equivalents, receivables and accounts payable approximate fair value due to the short maturities of these items. The fair value of the Company's 8¼% Limited convertible senior subordinated notes due 2012 (the "Notes"), using observable inputs, was $70,000 at December 31, 2019 and $77,000 at December 31, 2018. The fair value of the Company's 9½% Subordinated debentures due 2012 (the "Debentures"), using observable inputs, was $44,000 at December 31, 2019 and 2018. The fair value of the Company's remaining long-term debt including current portion approximates its carrying value of $1.7 million at December 31, 2019 and $4.7 million at December 31, 2018.

Inventories consist of the following:

In thousands		2018
Raw materials	$	1,178
Work-in-progress		626
Finished goods		397
Total inventory	$	2,201

Rental equipment consists of the following:

In thousands		2018
Rental equipment	$	7,109
Less accumulated depreciation		5,799
Net rental equipment	$	1,310

During 2019, $2.9 million of fully depreciated rental equipment was written off. Depreciation expense for rental equipment for the years ended December 31, 2019 and 2018 was $427,000 and $706,000, respectively.

Property, plant and equipment consists of the following:

In thousands		2018
Machinery, fixtures and equipment	$	2,691
Leaseholds and improvements		12
		2,703
Less accumulated depreciation		523
Net property, plant and equipment	$	2,180

Equipment having net book values of $2.3 million and $2.2 million at December 31, 2019 and 2018, respectively, are pledged as collateral under various financing agreements.

During 2019 and 2018, $76,000 and $421,000, respectively, of fully depreciated property, plant and equipment was written off. Depreciation expense for property, plant and equipment for the years ended December 31, 2019 and 2018 was $241,000 and $246,000, respectively.

Other assets consist of the following:

In thousands		2018
Refundable AMT credits	$	592
Prepaids		55
Deposits		73
Total other assets	$	720

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The components of income tax expense are as follows:

In thousands	2018
Current:	
Federal	$

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Accrued liabilities consist of the following:

In thousands		2018
Directors fees	$	1,148
Taxes payable		1,083
Interest payable		731
Deferred revenues		1,000
Current portion of pension liability (see Note 15 – Pension Plan)		623
Warranty reserve		405
Compensation and employee benefits		636
Audit fees		148
Other		558
	$	6,332

A summary of the warranty reserve for the years ended December 31, 2019 and 2018 is as follows:

In thousands		2018
Balance at beginning of year	$	322
Provisions		307
Deductions		(224)
Balance at end of year	$	405

In connection with a Securities Purchase Agreement ("SPA") with Unilumin, the Company issued the Unilumin Warrant to purchase 5,670,103 shares of the Company's Common Stock at an exercise price of $0.97 per share. In 2019, Unilumin fully exercised the Unilumin Warrant, aggregating $5.5 million. The Company received cash of $5.3 million after fees related to the exercise of this warrant.

On June 11, 2018, in connection with a Subordinated Secured Promissory Note (the "SMI Note"), the Company issued SM Investors,

On September 16, 2019, the Company entered into the Loan Agreement with MidCap. The Loan Agreement has a term of three years, unless earlier terminated by the parties in accordance with the

On June 11, 2018, the Company entered into a Subordinated Secured Promissory Note (the "SMI Note") with SM Investors, L.P. ("SMI"), pursuant to which the Company borrowed $330,000 from SMI. On April 17, 2019, the Company satisfied the SMI Note in

The Company was authorized to issue 2,500,000 shares of preferred stock as of December 31, 2019, of which (i) 416,500 shares were designated as Series A Convertible Preferred Stock, none of which were outstanding, (ii) 51,000 shares were designated as SBCPS, none of which were outstanding, and (iii) 2,032,500 shares were not yet designated. The undesignated preferred stock would contain such rights, preferences, privileges and restrictions as may be fixed by our Board of Directors.

Shares of the Company's Common Stock reserved for future issuance in connection with convertible securities and stock option plans were 260,000 and 6,260,343 at December 31, 2019 and 2018, respectively.

During 2019 and 2018, certain board members deferred payment of their director fees. In lieu of a cash payment, certain board members and former board members have agreed to receive restricted shares of Common Stock of the Company or a combination of cash and restricted shares of Common Stock of the Company, which such restricted shares shall contain a legend under the Securities Act of 1933 and shall not be transferable unless and until registered or otherwise in accordance with applicable securities law

The funded status of the plan as of December 31, 2019 and 2018 is as follows:

In thousands		2018
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$	14,320
Interest cost		455
Actuarial loss (gain)		(908)
Benefits paid		(902)
Projected benefit obligation at end of year		12,965
Change in plan assets:		
Fair value of plan assets at beginning of year		10,130
Actual return on plan assets		(1,002)
Company contributions		421
Benefits paid		(902)
Fair value of plan assets at end of year		8,647
Funded status (underfunded)	$	(4,318)
Amounts recognized in other accumulated comprehensive loss:		
Net actuarial loss	$	7,954
Weighted average assumptions as of December 31:		
Discount rate:		
Components of cost		3.65%
Benefit obligations		4.30%
Expected return on plan assets		8.00%
Rate of compensation increase		N/A

The Company determines the long-term rate of return for plan assets by studying historical markets and the long-term relationships between equity securities and fixed income securities, with the

On October 5, 2018, the Company granted 20,000 shares of Common Stock to the Company's Chief Executive Officer. The closing share price on the date of the grant was $0.49 and there was no vesting period. The Company recorded compensation expense of $10,000 in 2018.

The Company currently has one stock option plan. As of December 31, 2019, 800 shares of Common Stock were available for grant under the Non-Employee Director Stock Option Plan.

Changes in the stock option plan are as follows:

	Authorized	Number of Shares Granted	Available	Weighted Average Exercise Price
Balance January 1, 2018	800	-	800	N/A
Authorized	-	-	-	
Expired	-	-	-	
Granted	-	-	-	
Balance December 31, 2018	800	-	800	
Authorized	-	-	**-**	
Expired	**-**	-	**-**	
Granted	**-**	-	**-**	
Balance December 31, 2019	**800**	-	**800**	

Under the Non-Employee Director Stock Option Plan, option prices must be at least 100% of the market value of the Common Stock at the time of grant. No option may be exercised prior to one year aft

20. Related Party Transactions

On March 4, 2019, the Unilumin exercised $2.0 million of the Unilumin Warrant, and on April 5, 2019, Unilumin exercised the remaining $3.5 million of the Unilumin Warrant, raising an aggregate of $5.5 million for the Company. Unilumin now owns 52.0% of the Company's outstanding Common Stock. Nicholas Fazio, Yang Liu and Yantao Yu, each directors of the Company, are each directors and/or officers of Unilumin.

On April 5, 2019, the Rights Offering terminated. At the closing of the Rights Offering on April 9, 2019, the Company received gross proceeds of $2.5 million in exchange for 2,500,000 shares of Common Stock. Participants in the Rights Offering included (a) Gabelli Funds, LLC, a greater than 5% stockholder, (b) Salvatore Zizza and George Schiele, both directors of the Company, and (c) Alberto Shaio and Todd Dupee, both executive officers of the Company.

In connection with the Company's agreement with Unilumin in 2018, the Company paid $175,000 to Durkin Law, LLC in early 2019. In connection with Durkin Law, LLC's representation of the Company in regards to the Loan Agreement and certain other [illegible] paid 265,000 t

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

I98.5 u. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (our principal executive officer) and our Chief Accounting Officer (our principal accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedur

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to the Certificate of Incorporation and Amended and Restated Bylaws the Company, the Board of Directors is divided int

Salvatore J. Zizza

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Audit Committee

Executive Committee

Independence of Non-Employee Directors

Compensation of Executive Officers

Summary Compensation Table

Annual Compensation

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value of Nonqualified Deferred Compensation Earnings ($)	All Other Compen-sation ($) [1]	Total ($)

All Other Compensation

Name	Year

Stock Option Plans and Stock Options

Defined Benefit Pension Plan

Outstanding Equity Awards at Fiscal Year-End 2019

Employment Agreements

Potential Payments Upon Severance or Change in Control

Severance Benefit Component	Alberto Shaio

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Director Compensation

Non-Employee Director Stock Option Plan

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Certain Transactions

Audit Committee Pre-Approval of Independent Auditor Services:

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