

BALLANTYNE STRONG, INC.  
Form 10-Q  
November 07, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2018**

**OR**

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

**For the transition period from                      to**

**Commission File Number: 1-13906**

**BALLANTYNE STRONG, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**47-0587703**

(IRS Employer  
Identification Number)

**11422 Miracle Hills Drive, Suite 300, Omaha, Nebraska**

(Address of Principal Executive Offices)

**68154**

(Zip Code)

**(402) 453-4444**

(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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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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:

<b>Class</b>	<b>Outstanding as of October 31, 2018</b>
Common Stock, \$.01, par value	14,442,924 shares

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**PART I. Financial Information****Item 1. Financial Statements****Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(In thousands, except par values)**

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,659	\$ 4,870
Restricted cash	350	-
Accounts receivable (net of allowance for doubtful accounts of \$2,215 and \$1,877, respectively)	14,523	10,766
Inventories:		
Raw materials and components, net	1,330	1,376
Work in process	419	362
Finished goods, net	2,194	3,083
Total inventories, net	3,943	4,821
Income tax receivable	330	495
Other current assets	1,852	1,290
Total current assets	26,657	22,242
Property, plant and equipment (net of accumulated depreciation of \$9,379 and \$8,780 respectively)	14,244	10,826
Equity method investments	12,017	18,053
Intangible assets, net	1,818	3,972
Goodwill	922	952
Notes receivable	3,768	2,815
Other assets	405	154
Total assets	\$ 59,831	\$ 59,014
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,558	\$ 3,425
Accrued expenses	3,562	3,071
Short-term debt	2,607	500
Current portion of long-term debt	983	65
Deferred revenue and customer deposits	2,993	1,619

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Income tax payable	22	-
Total current liabilities	13,725	8,680
Long-term debt, net of current portion and debt issuance costs	9,721	1,870
Deferred revenue and customer deposits, net of current portion	1,182	1,207
Deferred income taxes	2,636	2,816
Other accrued expenses, net of current portion	184	319
Total liabilities	27,448	14,892
Stockholders' equity:		
Preferred stock, par value \$.01 per share; authorized 1,000 shares; none outstanding	-	-
Common stock, par value \$.01 per share; authorized 25,000 shares; issued 17,237 and 17,216 shares at September 30, 2018 and December 31, 2017, respectively; outstanding 14,443 and 14,422 shares at September 30, 2018 and December 31, 2017, respectively	169	169
Additional paid-in capital	41,285	40,565
Accumulated other comprehensive loss:		
Foreign currency translation	(4,633 )	(4,048 )
Postretirement benefit obligations	114	99
Unrealized gain on available-for-sale securities of equity method investments	150	353
Retained earnings	13,884	25,570
	50,969	62,708
Less 2,794 of common shares in treasury, at cost	(18,586 )	(18,586 )
Total stockholders' equity	32,383	44,122
Total liabilities and stockholders' equity	\$ 59,831	\$ 59,014

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****Three and Nine Months Ended September 30, 2018 and 2017****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net product sales	\$8,401	\$12,808	\$24,490	\$38,302
Net service revenues	8,052	6,751	21,968	18,583
Total net revenues	16,453	19,559	46,458	56,885
Cost of products sold	5,076	10,112	16,308	30,929
Cost of services	7,847	4,128	22,480	10,923
Total cost of revenues	12,923	14,240	38,788	41,852
Gross profit	3,530	5,319	7,670	15,033
Selling and administrative expenses:				
Selling	1,139	1,298	3,638	4,207
Administrative	3,384	3,473	12,301	11,706
Total selling and administrative expenses	4,523	4,771	15,939	15,913
Loss on disposal of assets	(799 )	-	(2,130 )	-
(Loss) income from operations	(1,792 )	548	(10,399 )	(880 )
Other income (expense):				
Interest income	-	-	-	18
Interest expense	(180 )	(51 )	(267 )	(84 )
Foreign currency transaction (loss) gain	(67 )	(306 )	41	(410 )
Fair value adjustment to notes receivable	802	-	953	-
Other income (expense), net	6	(35 )	(9 )	(24 )
Total other income (expense)	561	(392 )	718	(500 )
(Loss) income before income taxes and equity method investment income (loss)	(1,231 )	156	(9,681 )	(1,380 )
Income tax expense	497	440	1,837	2,709
Equity method investment income (loss)	507	(753 )	(244 )	1,516
Net loss from continuing operations	(1,221 )	(1,037 )	(11,762 )	(2,573 )
Net loss from discontinued operations, net of tax	-	-	-	(49 )
Net loss	\$(1,221 )	\$(1,037 )	\$(11,762 )	\$(2,622 )
Net loss per share - basic				
Net loss from continuing operations	\$(0.08 )	\$(0.07 )	\$(0.82 )	\$(0.18 )
Net loss from discontinued operations	-	-	-	(0.00 )
Net loss	(0.08 )	(0.07 )	(0.82 )	(0.18 )
Net loss per share - diluted				

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Net loss from continuing operations	\$(0.08 )	\$(0.07 )	\$(0.82 )	\$(0.18 )
Net loss from discontinued operations	-	-	-	(0.00 )
Net loss	(0.08 )	(0.07 )	(0.82 )	(0.18 )

See accompanying notes to condensed consolidated financial statements.



**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Loss****Three and Nine Months Ended September 30, 2018 and 2017****(In thousands)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$(1,221)	\$(1,037)	\$(11,762)	\$(2,622)
Adjustment to postretirement benefits	6	-	15	-
Currency translation adjustment:				
Unrealized net change arising during period	245	689	(585 )	1,507
Unrealized (loss) gain on available-for-sale securities of equity method investments, net of tax	(33 )	34	(203 )	215
Total other comprehensive income (loss)	218	723	(773 )	1,722
Comprehensive loss	\$(1,003)	\$(314 )	\$(12,535)	\$(900 )

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2018 and 2017****(In thousands)****(Unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(11,762)	\$(2,622)
Net loss from discontinued operations, net of tax	-	(49 )
Net loss from continuing operations	(11,762)	(2,573)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Provision for doubtful accounts	381	712
Provision for obsolete inventory	412	(160 )
Provision for warranty	83	319
Depreciation and amortization	1,953	1,563
Equity method investment loss (income)	244	(1,516)
Fair value adjustment to notes receivable	(953 )	-
Deferred income taxes	(146 )	715
Amortization of contract acquisition costs	29	-
Impairment of contract acquisition costs	59	-
Stock-based compensation expense	648	498
Impairment of operating lease	209	-
Loss on disposal of assets	2,130	-
Dividends received from investee	817	-
Changes in operating assets and liabilities:		
Accounts receivable	(4,244 )	385
Inventories	413	(134 )
Other current assets	(629 )	(41 )
Other assets	(392 )	(85 )
Accounts payable	171	1,197
Accrued expenses	244	(763 )
Deferred revenue and customer deposits	1,359	(1,204)
Current income taxes	178	174
Net cash flows used in operating activities - continuing operations	(8,796 )	(913 )
Net cash flows used in operating activities - discontinued operations	-	(147 )
Net cash used in operating activities	(8,796 )	(1,060)

(Continued on following page)

See accompanying notes to condensed consolidated financial statements.

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**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows - Continued****Nine Months Ended September 30, 2018 and 2017****(In thousands)****(Unaudited)**

	Nine Months Ended September 30,	
	2018	2017
Cash flows from investing activities:		
Proceeds from sale of equity securities	\$4,531	\$-
Purchase of equity securities	-	(2,525)
Dividends received from investee in excess of cumulative earnings	69	230
Capital expenditures	(1,220)	(2,949)
Proceeds from sale of business	-	60
Net cash provided by (used in) investing activities	3,380	(5,184)
Cash flows from financing activities:		
Proceeds from sale-leaseback financing	7,000	-
Proceeds from issuance of short-term debt	3,205	500
Proceeds from issuance of long-term debt	-	2,000
Principal payments on long-term debt	(2,278)	(17 )
Principal payments on short-term debt	(1,097)	-
Payment of debt issuance costs	(22 )	(46 )
Payments on capital lease obligations	(147 )	(188 )
Purchase of treasury stock	-	(102 )
Proceeds from exercise of stock options	-	71
Other	(8 )	-
Net cash provided by financing activities	6,653	2,218
Effect of exchange rate changes on cash and cash equivalents	(98 )	304
Net increase (decrease) in cash and cash equivalents and restricted cash	1,139	(3,722)
Discontinued operations activity included above:		
Add: Cash balance included in assets held for sale at beginning of period	-	175
Less: Cash balance included in assets held for sale at end of period	-	-
Cash and cash equivalents and restricted cash at beginning of period	4,870	7,596
Cash and cash equivalents and restricted cash at end of period	\$6,009	\$4,049
Components of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	\$5,659	\$4,049
Restricted cash	350	-
Total cash and cash equivalents and restricted cash	\$6,009	\$4,049
Supplemental disclosure of non-cash investing and financing activities:		

Term loan borrowings to finance equipment purchases	\$4,121	\$-
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See accompanying notes to condensed consolidated financial statements.

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**Ballantyne Strong, Inc. and Subsidiaries****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****1. Nature of Operations**

Ballantyne Strong, Inc. (“Ballantyne” or the “Company”), a Delaware corporation, is a holding company with diverse business activities focused on serving the cinema, retail, financial, advertising and government markets. The Company, and its wholly owned subsidiaries Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc. (“Strong/MDI”), Convergent Media Systems Corporation (“Convergent”) and Strong Digital Media, LLC design, integrate and install technology solutions for a broad range of applications; develop and deliver out-of-home messaging, advertising and communications; manufacture projection screens; and provide managed services including monitoring of networked equipment to our customers.

**2. Discontinued Operations**

In May 2017, the Company sold the operational assets of Strong Westrex, Inc. for total proceeds of \$60 thousand. The summary financial results of discontinued operations for the three and nine months ended September 30, 2017 were as follows (in thousands):

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Total net revenues	\$ -	\$ 24
Total cost of revenues	-	48
Total selling and administrative expenses	-	53
Loss from operations of discontinued operations	-	(77 )
Loss before income taxes	-	(49 )
Income tax expense	-	-
Net loss from discontinued operations, net of tax	\$ -	\$ (49 )

There was no depreciation and amortization related to discontinued operations recorded for the three and nine month periods ended September 30, 2017. There were no capital expenditures related to discontinued operations during the three and nine month periods ended September 30, 2017.

### **3. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Principles of Consolidation***

The condensed consolidated financial statements include the accounts of the Company and all majority owned and controlled domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America (also referred to as "GAAP") for annual reporting purposes or those made in the Company's Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The condensed consolidated balance sheet as of December 31, 2017 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

### ***Use of Management Estimates***

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

### ***Restricted Cash***

Restricted cash represents amounts held in a collateral account for the Company's corporate travel and purchasing credit card program.

### ***Accounts and Notes Receivable***

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company determines the allowance for doubtful accounts based on several factors, including overall customer credit quality, historical write-off experience and a specific analysis that projects the ultimate collectability of the account. As such, these factors may change over time causing the allowance level and bad debt expense to be adjusted accordingly.

### ***Equity Method Investments***

We apply the equity method of accounting to investments when we have significant influence, but not controlling interest, in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. The Company's proportionate share of the net income (loss) resulting from these investments is reported under the line item captioned "equity method investment income (loss)" in our condensed consolidated statements of operations. The carrying value of our equity method investments is reported in "equity method investments" in the condensed consolidated balance sheets. The Company's equity method investments are reported at cost and adjusted each period for the Company's share of the investee's income or loss and dividend paid, if any. The Company's share of the investee's income or loss is recorded on a one quarter lag for all equity method investments. The Company classifies distributions received from equity method investments using the cumulative earnings approach on the condensed consolidated statements of cash flows. The



Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. The Company recorded an other-than-temporary impairment charge related to its equity method investments of \$0.7 million in equity method investment loss on its condensed consolidated statements of operations during the nine month period ended September 30, 2018. The Company did not record any impairments related to its equity method investments during the three month period ended September 30, 2018 or three and nine month periods ended September 30, 2017. Note 6 contains additional information on our equity method investments.

### ***Fair Value of Financial Instruments***

Assets and liabilities measured at fair value are categorized into a fair value hierarchy based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 – inputs to the valuation techniques are quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 – inputs to the valuation techniques are unobservable for the assets or liabilities

The following tables present the Company’s financial assets measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements are classified, as of September 30, 2018 and December 31, 2017.

Fair values measured on a recurring basis at September 30, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$5,659	\$ -	\$-	\$5,659
Restricted cash	350	-	-	350
Notes receivable	-	-	3,768	3,768
Total	\$6,009	\$ -	\$3,768	\$9,777

Fair values measured on a recurring basis at December 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$4,870	\$ -	\$-	\$4,870
Notes receivable	-	-	2,815	2,815
Total	\$4,870	\$ -	\$2,815	\$7,685

Quantitative information about the Company’s level 3 fair value measurements at September 30, 2018 is set forth below:

	Fair value at	Valuation technique	Unobservable input	Range
	9/30/18 (in thousands)			
Notes receivable	\$ 3,768	Discounted cash flow	Default percentage	15 %

Discount rate 18 %

During 2011, the Company entered into certain unsecured notes receivable arrangements with CDF2 Holdings, LLC pertaining to the sale and installation of digital projection equipment. The notes receivable accrue interest at a rate of 15% per annum. Interest not paid in any particular year is added to the principal and also accrues interest at 15%. The notes receivable are recorded at estimated fair value. In order to estimate the fair value, the Company reviews the financial position and estimated cash flows of the debtor of the notes receivable on a quarterly basis. During 2018, the Company updated its estimated future cash flow assumptions. This resulted in an increase to the fair value of the notes receivable of approximately \$1.0 million recorded in other income in the Company's condensed consolidated statement of operations during the nine months ended September 30, 2018. There was no adjustment to the estimated fair value of the notes receivable during the nine months ended September 30, 2017.

The significant unobservable inputs used in the fair value measurement of the Company's notes receivable are discount rate and percentage of default. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement.

The Company's short-term and long-term debt is recorded at historical cost. As of September 30, 2018, the Company's long-term debt, including current maturities, had a carrying value of \$10.7 million. Based on discounted cash flows using current quoted interest rates (Level 2 of the fair value hierarchy), the estimated fair value at September 30, 2018 was \$10.7 million.

The carrying values of all other financial assets and liabilities, including accounts receivable, accounts payable, accrued expenses and short-term debt, reported in the condensed consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. Note 6 includes fair value information related to our equity method investments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which include non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the three and nine months ended September 30, 2018, the Company recorded impairment charges of \$0.8 million and \$2.1 million, respectively, related to the abandonment of internally developed software intangible assets as a loss on disposal of assets in the condensed consolidated statement of operations. Other than the intangible asset impairment, the Company did not have any significant non-recurring measurements of non-financial assets or liabilities during the three and nine months ended September 30, 2018 and 2017.

### ***Recently Adopted Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASC 606”). The ASU replaced most existing revenue recognition guidance in U.S. GAAP. The Company adopted ASC 606 effective January 1, 2018 using the modified retrospective method. The Company recorded a transition adjustment of approximately \$76 thousand increasing the opening balance of retained earnings, primarily related to the deferral and amortization of direct and incremental costs of obtaining contracts. See Note 4 for further information about the nature and pattern of revenue recognition for the different types of contracts with customers.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires equity investments that do not result in consolidation and are not accounted under the equity method to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets; and modifies certain fair value disclosure requirements. The Company adopted ASU 2016-01 prospectively on January 1, 2018. The adoption of this ASU did not significantly impact the Company’s results of operations and financial position.

In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” The new guidance describes the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The Company adopted this ASU effective January 1, 2018. The adoption of this ASU did not significantly impact the Company’s results of

operations and financial position.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which was further clarified by ASU 2018-11, “Leases – Targeted Improvements,” issued in July 2018. ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months, on its balance sheet. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, and initially required a modified retrospective transition method under which entities would initially apply Topic 842 at the beginning of the earliest period presented in the financial statements. ASU 2018-11 added an additional optional transition method allowing entities to apply Topic 842 as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to adopt ASU 2016-02 using the optional transition method from ASU 2018-11 on January 1, 2019. The Company is evaluating the requirements of Topic 842 and its potential impact on its financial statements. The Company has leases primarily for property and equipment and is in the process of identifying and evaluating these leases for purposes of adopting ASU 2016-02. For each of these leases, the term will be evaluated, including extension and renewal options as well as the lease payments. While the Company has not yet quantified the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements, the Company expects to record assets and liabilities on its balance sheet upon adoption of this standard, which may be material. In addition, the Company expects that the sale-leaseback of Convergent’s Alpharetta, Georgia office facility described in Note 10, which did not qualify for sale-leaseback accounting under the current lease accounting standard, will qualify for sale-leaseback accounting under Topic 842, as Topic 842 eliminates the concept of continuing involvement by the seller-lessee precluding sale-leaseback accounting. The Company will continue to provide enhanced disclosures as it continues its assessment.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU will require the measurement of all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The guidance is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company believes its adoption will not significantly impact the Company’s results of operations and financial position.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The new guidance eliminates Step 2 of the goodwill impairment testing which requires the fair value of individual assets and liabilities of a reporting unit to be determined when measuring goodwill impairment. The new guidance may result in different amounts of impairment that could be recognized compared to existing guidance. In addition, failing step 1 of the impairment test may not result in impairment under existing guidance. However, under the revised guidance, failing step 1 will always result in a goodwill impairment. ASU 2017-04 is to be applied prospectively for goodwill impairment testing performed in years beginning after December 15, 2019. The Company does not believe its adoption will significantly impact the Company’s results of operations or financial position.

In August 2018, the Securities and Exchange Commission (the “SEC”) adopted the final rule under SEC Release No. 33-10532, “Disclosure Update and Simplification,” amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders’ equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders’ equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The final rule is effective for all filings made on and after November 5, 2018. Given the effective date and proximity to most filers’ quarterly reports, the SEC is not objecting to filers deferring the presentation of changes in stockholders’ equity in their quarterly reports on Forms 10-Q until the quarter that begins after November 5, 2018. The Company anticipates its first presentation of changes in stockholders’ equity will be included in its quarterly report on Form 10-Q for the quarter ended March 31, 2019.

#### **4. Revenue**

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

Under ASC 606, the Company accounts for revenue using the following steps:

Identify the contract, or contracts, with a customer

Identify the performance obligations in the contract

Determine the transaction price

Allocate the transaction price to the identified performance obligations

Recognize revenue when, or as, the Company satisfies the performance obligations

The Company combines contracts with the same customer into a single contract for accounting purposes when the contracts are entered into at or near the same time and the contracts are negotiated as a single commercial package, consideration in one contract depends on the other contract, or the services are considered a single performance obligation. If an arrangement involves multiple performance obligations, the items are analyzed to determine the separate units of accounting, whether the items have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach. The Company estimates the amount of total contract consideration it expects to receive for variable arrangements by determining the most likely amount it expects to earn from the arrangement based on the expected quantities of services it expects to provide and the contractual pricing based on those quantities. The Company only includes some or a portion of variable consideration in the transaction price when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company considers the sensitivity of the estimate, its relationship and experience with the client and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement.

As discussed in more detail below, revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company does not have any material extended payment terms as payment is due at or shortly after the time of the sale. Observable prices are used to determine the standalone selling price of separate performance obligations, or a cost plus margin approach is used when observable prices are not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

The Company recognizes contract assets or unbilled receivables related to revenue recognized for services completed but not yet invoiced to the clients. Unbilled receivables are recorded as accounts receivable when the Company has an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when the Company invoices clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when the Company has satisfied the related performance obligation.

Deferred contract acquisition costs are included in other assets. Beginning January 1, 2018, with the adoption of ASC 606, the Company defers costs to acquire contracts, including commissions, incentives and payroll taxes, if they are incremental and recoverable costs of obtaining a customer contract with a term exceeding one year. Deferred contract costs are reported within other assets and amortized to selling expense over the contract term, which generally ranges from one to five years. The Company has elected to recognize the incremental costs of obtaining a contract with a term of less than one year as a selling expense when incurred. Prior to 2018, all contract acquisition costs were expensed as incurred. The Company recorded a transition adjustment of approximately \$76 thousand increasing the opening balance of retained earnings, primarily related to the deferral and amortization of direct and incremental costs of obtaining contracts. The following table summarizes the changes in the Company's contract asset balance during the



nine months ended September 30, 2018 (in thousands):

Deferred contract acquisition costs as of January 1, 2018	\$76
Costs capitalized	12
Amortization	(29)
Impairment	(59)
Deferred contract acquisition costs as of September 30, 2018	\$-

During the three months ended September 30, 2018, the Company recorded an impairment charge of \$59 thousand for the remaining deferred contract acquisition costs, as they are no longer considered recoverable based on the customer's recent credit history.

The following tables summarize the impact the adoption of ASC 606 had on the Company's consolidated financial statements (in thousands, except per share data):

**Condensed Consolidated Balance Sheet:**

	As reported September 30, 2018	Adjustments	Balances without adoption of ASC 606
Total current assets	\$ 26,657	\$ 68	\$ 26,725
Total noncurrent assets	33,174	-	33,174
Total assets	\$ 59,831	\$ 68	\$ 59,899
Total current liabilities	\$ 13,725	\$ 83	\$ 13,808
Total noncurrent liabilities	13,723	-	13,723
Total liabilities	27,448	83	27,531
Retained earnings	13,884	(15 )	13,869
Other stockholders' equity	18,499	-	18,499
Total stockholders' equity	32,383	(15 )	32,368
Total liabilities and stockholders' equity	\$ 59,831	\$ 68	\$ 59,899

**Condensed Consolidated Statements of Operations:**

	As reported for the three months ended September 30, 2018	Adjustments	Balances without adoption of ASC 606
Total net revenues	\$ 16,453	\$ 102	\$ 16,555
Total cost of revenues	12,923	81	13,004
Gross profit	3,530	21	3,551
Total selling and administrative expenses	4,523	(60 )	4,463
Loss on disposal of assets	(799 )	-	(799 )
Loss from operations	(1,792 )	81	(1,711 )
Other income	561	-	561
Loss before income taxes and equity method investment income	(1,231 )	81	(1,150 )

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Income tax expense	497	-	497
Equity method investment income	507	-	507
Net loss	\$ (1,221 )	\$ 81	\$ (1,140 )
Net loss per share of common stock:			
Basic	\$ (0.08 )		\$ (0.08 )
Diluted	\$ (0.08 )		\$ (0.08 )

	As reported for the nine months ended September 30, 2018	Adjustments	Balances without adoption of ASC 606
Total net revenues	\$ 46,458	\$ 187	\$46,645
Total cost of revenues	38,788	204	38,992
Gross profit	7,670	(17 )	7,653
Total selling and administrative expenses	15,939	(78 )	15,861
Loss on disposal of assets	(2,130 )	-	(2,130 )
Loss from operations	(10,399 )	61	(10,338)
Other income	718	-	718
Loss before income taxes and equity method investment loss	(9,681 )	61	(9,620 )
Income tax expense	1,837	-	1,837
Equity method investment loss	(244 )	-	(244 )
Net loss	\$ (11,762 )	\$ 61	\$(11,701)
Net loss per share of common stock:			
Basic	\$ (0.82 )		\$(0.81 )
Diluted	\$ (0.82 )		\$(0.81 )

The adoption of ASC 606 did not have any net impact on other comprehensive loss or cash flows.

The following table disaggregates the Company's revenue by major source for the three months ended September 30, 2018 (in thousands):

	Cinema	Digital Media	Other	Eliminations	Total
Screen system sales	\$5,005	\$-	\$ -	\$ -	\$5,005
Digital equipment sales	2,134	630	-	(44 )	2,720
Field maintenance and monitoring services	2,966	1,372	-	(129 )	4,209
Installation services	712	1,069	-	-	1,781
Extended warranty sales	213	-	-	-	213
Advertising	-	1,480	-	-	1,480
Other	530	499	16	-	1,045
Total	\$11,560	\$5,050	\$ 16	\$ (173 )	\$16,453

The following table disaggregates the Company's revenue by major source for the nine months ended September 30, 2018 (in thousands):

	Cinema	Digital Media	Other	Eliminations	Total
Screen system sales	\$13,240	\$-	\$ -	\$ -	\$13,240
Digital equipment sales	7,228	2,020	-	(278 )	8,970
Field maintenance and monitoring services	9,011	5,193	-	(344 )	13,860
Installation services	1,420	3,057	-	-	4,477
Extended warranty sales	804	-	-	-	804
Advertising	-	1,948	-	-	1,948
Other	1,735	1,375	49	-	3,159
Total	\$33,438	\$13,593	\$ 49	\$ (622 )	\$46,458

*Screen system sales*

The Company recognizes revenue on the sale of its screen systems when control of the screen is transferred to the customer, usually at time of shipment. However, revenue is recognized upon delivery for certain international shipments with longer shipping transit time because control does not transfer to the customer until delivery.

*Digital equipment sales*

The Company recognizes revenue on sales of digital equipment when the control of the equipment is transferred, which occurs at the time of shipment from the Company's warehouse or drop-shipment from a third party. The cost of freight and shipping to the customer is recognized in cost of sales at the time of transfer of control to the customer.

*Field maintenance and monitoring services*

The Company sells service contracts that provide maintenance and monitoring services to Cinema and Digital Media customers. In the Cinema segment, these contracts are generally 12 months in length, while the term for service contracts in the Digital Media segment can be for multiple years. Revenue is recognized over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract.

The Company also performs time and materials-based maintenance and repair work for customers in the Cinema and Digital Media segments. Revenue is recognized at a point in time when the performance obligation has been fully satisfied.

*Installation services*

The Company performs installation services for both its Cinema and Digital Media customers and recognizes revenue upon completion of the installations.

*Extended warranty sales*

The Company sells extended warranties to its Cinema customers. When the Company is the primary obligor, revenue is recognized on a gross basis over the term of the extended warranty in proportion to the costs incurred in fulfilling performance obligations under the extended warranty. In third party extended warranty sales, the Company is not the primary obligor, and revenue is recognized on a net basis at the time of the sale.

At January 1, 2018, \$0.8 million of unearned revenue associated with maintenance and monitoring services and extended warranty sales in which the Company is the primary obligor was reported in deferred revenue and customer deposits. During the nine months ended September 30, 2018, substantially all of this balance was earned and recognized as revenue. At September 30, 2018, the unearned revenue amount was \$0.6 million. The Company expects to recognize \$0.3 million of unearned revenue amounts throughout the rest of 2018, \$0.3 million in 2019 and immaterial amounts each year from 2020 through 2023.

The following table disaggregates the Company's revenue by the timing of transfer of goods or services to the customer for the three months ended September 30, 2018 (in thousands):

	Cinema	Digital Media	Other	Eliminations	Total
Point in time	\$9,872	\$3,399	\$ -	\$ (173 )	\$13,098
Over time	1,688	1,651	16	-	3,355
Total	\$11,560	\$5,050	\$ 16	\$ (173 )	\$16,453

The following table disaggregates the Company's revenue by the timing of transfer of goods or services to the customer for the nine months ended September 30, 2018 (in thousands):

	Cinema	Digital Media	Other	Eliminations	Total
Point in time	\$28,159	\$7,935	\$ -	\$ (622	) \$35,472
Over time	5,279	5,658	49	-	10,986
Total	\$33,438	\$13,593	\$ 49	\$ (622	) \$46,458

## 5. Loss Per Common Share

Basic loss per share has been computed on the basis of the weighted average number of shares of common stock outstanding. Diluted loss per share has been computed on the basis of the weighted average number of shares of common stock outstanding after giving effect to potential common shares from dilutive stock options and certain non-vested shares of restricted stock and restricted stock units. The following table summarizes the average shares used to compute basic and diluted loss per share:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Weighted average shares outstanding (in thousands):				
Basic weighted average shares outstanding	14,392	14,310	14,366	14,279
Dilutive effect of stock options and certain non-vested shares of restricted stock	-	-	-	-
Diluted weighted average shares outstanding	14,392	14,310	14,366	14,279

For the three and nine month periods ended September 30, 2018, options to purchase 330,000 shares of common stock were outstanding but were not included in the computation of diluted loss per share as the option's exercise price was greater than the average market price of the common shares for each period. An additional 63,398 and 166,391 common stock equivalents related to options and restricted stock awards were excluded for the three and nine months ended September 30, 2018, respectively, as their inclusion would be anti-dilutive, thereby decreasing the net losses per share. For the three and nine month periods ended September 30, 2017, options to purchase 470,000 shares of common stock were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. An additional 115,754 and 154,161 common stock equivalents related to options and restricted stock awards were excluded for the three and nine months ended September 30, 2017, respectively, as their inclusion would be anti-dilutive, thereby decreasing the net losses per share.



**6. Equity Method Investments**

The following summarizes our equity method investments (dollars in thousands):

Entity	September 30, 2018			December 31, 2017		
	Carrying Amount	Economic Interest		Carrying Amount	Economic Interest	
BK Technologies, Inc.	\$-	0.0	%	\$4,473	8.3	%
Itasca Capital, Ltd.	3,890	32.3	%	5,870	32.3	%
1347 Property Insurance Holdings, Inc.	8,127	17.4	%	7,710	17.4	%
Total	\$12,017			\$18,053		

The following summarizes the income (loss) of equity method investees reflected in the condensed consolidated statements of operations (in thousands):

Entity	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
BK Technologies, Inc.	\$512	\$109	\$120	\$12
Itasca Capital, Ltd.	(28)	(1,023)	(967)	1,289
1347 Property Insurance Holdings, Inc.	23	161	603	215
Total	\$507	\$(753)	\$(244)	\$1,516

BK Technologies, Inc. (formerly known as RELM Wireless Corporation) (“BKTI”) is a publicly traded company that designs, manufactures and markets two-way land mobile radios, repeaters, base stations and related components and subsystems. Due to the Company’s significant influence, but not controlling interest, in BKTI, the Company’s investment in BKTI was accounted for using the equity method. On September 9, 2018, the Company entered into an agreement with Fundamental Global Investors, LLC (“FGI”), a related party, where the Company sold 1,147,087 shares of common stock of BKTI to FGI for a price of \$3.95 per share and total proceeds of approximately \$4.5 million. The per share transaction price of \$3.95 represented the immediately preceding closing price on the NYSE American stock exchange, and the transaction was approved by the Company’s Audit Committee, comprised of only independent directors. The Company recorded a gain on the sale of the equity method investment of \$0.4 million within equity method investment income on the condensed consolidated statement of operations for the three and nine month periods ended September 30, 2018. Prior to the sale of the BKTI common stock, the Company received dividends of \$23 thousand and \$0.1 million during the three month periods ended September 30, 2018 and 2017, respectively, and received dividends of \$0.1 million and \$0.2 million during the nine month periods ended September 30, 2018 and 2017, respectively.

Itasca Capital, Ltd. (“Itasca”) is a publicly traded Canadian company that is an investment vehicle seeking transformative strategic investments. The Company’s Chief Executive Officer is chairman of the board of directors of Itasca. This board seat, combined with the Company’s 32.3% ownership of Itasca, provide the Company with significant influence over Itasca, but not controlling interest. The Company received a dividend of \$0.8 million from Itasca during the three and nine month periods ended September 30, 2018. The Company did not receive any dividends from Itasca during the three and nine month periods ended September 30, 2017. Based on quoted market prices, the market value of the Company’s ownership in Itasca was \$2.4 million at September 30, 2018. A \$0.7 million other-than-temporary impairment charge for Itasca is included in equity method investment loss on the condensed consolidated statements of operations for the nine month period ended September 30, 2018.

1347 Property Insurance Holdings, Inc. (“PIH”) is a publicly traded company that provides property and casualty insurance in the States of Louisiana, Texas and Florida. The Company’s Chief Executive Officer is chairman of the board of directors of PIH, and controls entities that, when combined with the Company’s ownership in PIH, own greater than 20% of PIH, providing the Company with significant influence over PIH, but not controlling interest. The

Company did not receive dividends from PIH during the three or nine month periods ended September 30, 2018 and 2017. Based on quoted market prices, the market value of the Company's ownership in PIH was \$7.0 million at September 30, 2018.

As of September 30, 2018, the Company's retained earnings included undistributed earnings from its equity method investees of \$1.3 million.

The summarized financial information presented below reflects the financial information of the Company's equity method investees as of September 30, 2018 for the nine months ended June 30, 2018 and 2017, consistent with the Company's recognition of the results of its equity method investments on a one-quarter lag.

For the nine months ended June 30,	2018	2017
	(in thousands)	
Revenue	\$38,977	\$25,227
Operating income from continuing operations	\$5,489	\$4,074
Net income	\$2,500	\$7,012

## 7. Intangible Assets

Intangible assets consisted of the following at September 30, 2018 (dollars in thousands):

	Useful life (Years)	Gross	Accumulated Amortization	Net
Intangible assets not yet subject to amortization:				
Software in development		\$79	\$ -	\$79
Intangible assets subject to amortization:				
Software in service	5	2,123	(482)	1,641
Product formulation	10	472	(374)	98
Total		\$2,674	\$ (856)	\$1,818

Intangible assets consisted of the following at December 31, 2017 (dollars in thousands):

	Useful life (Years)	Gross	Accumulated Amortization	Net
Intangible assets not yet subject to amortization:				
Software in development		\$1,243	\$ -	\$1,243
Intangible assets subject to amortization:				
Software in service	5	3,191	(597)	2,594

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Product formulation	10	486	(351	)	135
Total		\$4,920	\$ (948	)	\$3,972

Amortization expense relating to intangible assets was \$0.5 million and \$0.4 million for the nine months ended September 30, 2018 and 2017, respectively. During the three and nine months ended September 30, 2018, the Company also recorded impairment charges of \$0.8 million and \$2.1 million, respectively, related to abandoned software in service as a loss on disposal of assets in the condensed consolidated statement of operations.

The following table shows the Company's estimated future amortization expense related to intangible assets currently subject to amortization for the next five years (in thousands):

Remainder 2018	\$ 120
2019	468
2020	459
2021	420
2022	215
Thereafter	57
Total	\$ 1,739

## 8. Goodwill

The following represents a summary of changes in the Company's carrying amount of goodwill for the nine months ended September 30, 2018 (in thousands):

Balance as of December 31, 2017	\$952
Foreign currency translation	(30 )
Balance as of September 30, 2018	\$922

## 9. Warranty Reserves

In most instances, the Company's digital projection products are covered by the manufacturing firm's original warranty; however, for certain customers the Company may grant warranties in excess of the manufacturer's warranty. In addition, the Company provides warranty coverage on screens it manufactures. The Company accrues for these costs at the time of sale. The following table summarizes warranty activity for the three and nine months ended September 30, 2018 and 2017 (in thousands):

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2018	2017	2018	2017

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Warranty accrual at beginning of period	\$449	\$457	\$521	\$645
Charged to expense	18	144	83	319
Claims paid, net of recoveries	(26)	(20)	(142)	(392)
Foreign currency adjustment	8	3	(13)	12
Warranty accrual at end of period	\$449	\$584	\$449	\$584

**10. Debt**

The Company's debt consists of the following (in thousands):

	September 30, 2018	December 31, 2017
Short-term debt:		
Strong/MDI installment loan	\$ 2,607	\$ -
Revolving line of credit	-	500
Current portion of long-term debt	983	65
Total short-term debt	3,590	565
Long-term debt:		
Sale-leaseback financing	6,827	-
Equipment term loans	3,897	-
\$2 million term loan	-	1,968
Total principal balance of long-term debt	10,724	1,968
Less: current portion	(983 )	(65 )
Less: unamortized debt issuance costs	(20 )	(33 )
Total long-term debt	9,721	1,870
Total short-term and long-term debt	\$ 13,311	\$ 2,435

On May 22, 2018, the Company's subsidiary, Convergent, entered into an installment payment agreement with an equipment financing company in order to purchase media players and related equipment in an aggregate amount of up to approximately \$4.4 million. Installment payments under each contract for purchase of the equipment are due monthly for a period of 60 months. The financing provided in the agreement is secured by the equipment. The borrowings under the agreement are recorded as long-term debt on the Company's condensed consolidated balance sheet and bear interest at a fixed rate based on the three-year U.S. Treasury Note yield plus a spread at the time of funding. The obligations under the agreement are guaranteed by the Company. At September 30, 2018, the Company had \$3.9 million of outstanding borrowings under the agreement, which bear interest at a weighted-average fixed rate of 5.8%.

On June 29, 2018, the Company and Convergent completed a sale-leaseback of Convergent's Alpharetta, Georgia office facility. Convergent sold the Alpharetta facility for \$7.0 million in cash and the Company simultaneously entered into a 10-year leaseback of the facility for rent in the amount of \$600,000 per year, escalating at the rate of 2% per year. Due to the Company's continuing involvement in the building, the transaction was accounted for as a financing rather than a normal leaseback. The net proceeds from the transaction were recorded as a financing liability in long-term debt on the Company's condensed consolidated balance sheet. Upon closing, the Company's term loan and revolving line of credit that previously were secured by the Alpharetta facility were repaid, and the related debt agreement was terminated. In addition, the Company issued warrants to the buyer to purchase up to 100,000 shares of Company stock, consisting of warrants to purchase 25,000 shares at each of \$10, \$12, \$14, and \$16 purchase prices per share. The warrants have a 10-year maturity. The Company recorded the aggregate \$81 thousand fair value of the



warrants as additional paid-in capital. The warrants are recorded at grant date fair value, which was calculated based on a Black-Scholes valuation model using the following assumptions:

Expected dividend yield at date of grant	0.00 %
Risk-free interest rate	2.81 %
Expected stock price volatility	37.01 %
Expected life of warrants (in years)	7.0

The risk-free interest rate assumption was based on the U.S. Treasury yield curve in effect at the warrant issuance date. The expected volatility was based on historical daily price changes of the Company's stock for the seven years prior to the warrant issuance date. The expected life of the warrants is the Company's estimate of the number of years the warrants will be outstanding.

On September 5, 2017, the Company's Canadian subsidiary, Strong/MDI, entered into a demand credit agreement with a bank consisting of a revolving line of credit for up to CDN\$3.5 million subject to a borrowing base requirement, a 20-year installment loan for up to CDN\$6.0 million and a 5-year installment loan for up to CDN\$500,000. Amounts outstanding under the line of credit are payable on demand and will bear interest at the prime rate established by the lender. Amounts outstanding under the installment loans will bear interest at the lender's prime rate plus 0.5% and are payable in monthly installments, including interest, over their respective borrowing periods. The lender may also demand repayment of the installment loans at any time. The Strong/MDI credit facilities are secured by a lien on Strong/MDI's Quebec, Canada facility and substantially all of Strong/MDI's assets. The credit agreement requires Strong/MDI to maintain a ratio of liabilities to "effective equity" (tangible stockholders' equity, less amounts receivable from affiliates and equity method investments) not exceeding 2 to 1, a current ratio (excluding amounts due from related parties) of at least 1.5 to 1 and minimum "effective equity" of CDN\$8.0 million. On April 24, 2018, the Company borrowed CDN\$3.5 million on the 20-year installment loan. There was CDN\$3.38 million of principal outstanding on the 20-year installment loan as of September 30, 2018, which bears variable interest at 4.28%. Strong/MDI was in compliance with its debt covenants as of September 30, 2018.

Scheduled repayments are as follows for the Company's long-term debt outstanding as of September 30, 2018 (in thousands):

Remainder of 2018	\$ 172
2019	996
2020	1,066
2021	1,141
2022	1,221
Thereafter	6,128
Total	\$ 10,724

## 11. Income Taxes

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The Company considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. A cumulative loss in a particular tax jurisdiction in recent years is a significant piece of evidence with respect to the realizability that is difficult to overcome. Based on the available objective evidence, including recent updates to the

taxing jurisdictions generating income, the Company concluded that a valuation allowance should be recorded against all of the Company's U.S. tax jurisdiction deferred tax assets as of September 30, 2018 and December 31, 2017.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law in the United States. The law includes significant changes to the United States corporate income tax system, including a federal corporate rate reduction and the transition of the United States from a worldwide tax system to a territorial tax system. As part of the transition to a territorial tax system, the 2017 Tax Act requires taxpayers to calculate a one-time transition tax based on the deemed repatriation of undistributed earnings of foreign subsidiaries. The Company is currently analyzing the 2017 Tax Act, and in certain areas, has made provisional estimates of the effects on our consolidated financial statements and tax disclosures, including the amount of the repatriation tax and changes to existing deferred tax balances.

The Company is subject to possible examinations not yet initiated for Federal purposes for fiscal years 2015 through 2017. In most cases, the Company is subject to possible examinations by state or local jurisdictions based on the particular jurisdiction’s statute of limitations.

## 12. Stock Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated grant date fair values. Stock-based compensation expense included in selling and administrative expenses approximated \$0.2 million for each of the three month periods ended September 30, 2018 and 2017, and \$0.6 million and \$0.5 million for the nine month periods ended September 30, 2018 and 2017, respectively.

The Company’s 2017 Omnibus Equity Compensation Plan (“2017 Plan”) was approved by the Company’s stockholders and provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other stock-based awards and cash-based awards. Vesting terms vary with each grant and may be subject to vesting upon a “change in control” of the Company. The total number of shares authorized for issuance under the 2017 Plan is 1,371,189 shares, with 1,121,654 shares remaining available for grant at September 30, 2018.

### *Options*

The Company granted a total of 387,500 and 435,000 options during the nine month periods ended September 30, 2018 and 2017, respectively. Options to purchase shares of common stock were granted with exercise prices equal to the fair value of the common stock on the date of grant.

The weighted average grant date fair value of stock options granted during the nine month periods ended September 30, 2018 and 2017 was \$1.82 and \$2.42, respectively. The fair value of each stock option granted was estimated on the date of grant using a Black-Scholes valuation model with the following weighted average assumptions:

	2018	2017
Expected dividend yield at date of grant	0.00 %	0.00 %
Risk-free interest rate	2.49 %	1.99 %
Expected stock price volatility	35.65 %	34.85 %
Expected life of options (in years)	6.0	6.0

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on historical daily price changes of the Company's stock for six years prior to the date of grant. The expected life of options is the average number of years the Company estimates that options will be outstanding.

The following table summarizes stock option activity for the nine months ended September 30, 2018:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2017	930,300	\$ 5.63	8.7	\$ 150
Granted	387,500	4.70		
Exercised	-	-		
Forfeited	(249,000)	5.72		
Expired	(144,300)	4.84		
Outstanding at September 30, 2018	924,500	\$ 5.26	8.5	\$ -
Exercisable at September 30, 2018	163,000	\$ 5.23	7.7	\$ -

The aggregate intrinsic value in the table above represents the total that would have been received by the option holders if all in-the-money options had been exercised and sold on the date indicated.

As of September 30, 2018, 761,500 stock option awards were non-vested. Unrecognized compensation cost related to stock option awards was approximately \$1.3 million, which is expected to be recognized over a weighted average period of 3.7 years.

### ***Restricted Stock***

The Company estimates the fair value of restricted stock awards based upon the market price of the underlying common stock on the date of grant. As of September 30, 2018, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately \$0.8 million, which is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes restricted stock share activity for the nine months ended September 30, 2018:

Number of Restricted	Weighted Average
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	Stock Shares	Grant Date Fair Value
Non-vested at December 31, 2017	85,000	\$ 6.50
Granted	-	-
Shares vested	(28,333 )	6.50
Shares forfeited	(10,000 )	6.50
Non-vested at September 30, 2018	46,667	\$ 6.50

The following table summarizes restricted stock unit activity for the nine months ended September 30, 2018:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	35,835	\$ 6.45
Granted	147,500	4.70
Shares vested	(35,835 )	6.45
Shares forfeited	-	-
Non-vested at September 30, 2018	147,500	\$ 4.70

### 13. Commitments, Contingencies and Concentrations

#### *Litigation*

The Company is involved, from time to time, in certain legal disputes in the ordinary course of business operations. No such disputes, individually or in the aggregate, are expected to have a material effect on the Company's business or financial condition.

#### *Concentrations*

The Company's top ten customers accounted for approximately 53% and 45% of total consolidated net revenues for the three and nine months ended September 30, 2018, respectively. Trade accounts receivable from these customers represented approximately 45% of net consolidated receivables at September 30, 2018. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company's significant customers could have a material adverse effect on the Company's business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.



Financial instruments that potentially expose the Company to a concentration of credit risk principally consist of accounts receivable. The Company sells product to a large number of customers in many different geographic regions. To minimize credit risk, the Company performs ongoing credit evaluations of its customers' financial condition.

*Leases*

The Company and its subsidiaries lease plant and office facilities, furniture, autos and equipment under operating leases expiring through 2022. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business.

The Company's future minimum lease payments for leases at September 30, 2018 are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
Remainder 2018	\$62	\$ 450
2019	116	1,770
2020	-	1,545
2021	-	1,416
2022	-	1,081
Thereafter	-	-
Total minimum lease payments	\$178	\$ 6,262
Less: Amount representing interest	(4 )	
Present value of minimum lease payments	174	
Less: Current maturities	(174)	
Capital lease obligations, net of current portion	\$-	

#### 14. Business Segment Information

As of September 30, 2018, the Company's operations were conducted principally through two business segments: Cinema and Digital Media. The Cinema segment provides a full range of product and service solutions primarily for the theater exhibition industry, including a wide spectrum of premier audio-visual products and accessories such as digital projectors, state of the art projection screens, servers, library management systems, menu boards, flat panel displays, and sound systems, as well as network monitoring and on-site service for cinema equipment. The Digital Media segment develops and delivers solutions for out-of-home messaging, advertising and communication and provides managed services including monitoring of networked equipment. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing solutions and services to our customers.

**Summary by Business Segments**

(In thousands)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Net revenues				
Cinema	\$11,560	\$12,290	\$33,438	\$38,153
Digital Media	5,050	7,595	13,593	19,277
Other	16	13	49	22
Total segment net revenues	16,626	19,898	47,080	57,452
Eliminations	(173 )	(339 )	(622 )	(567 )
Total net revenues	16,453	19,559	46,458	56,885
Gross profit (loss)				
Cinema	4,415	3,934	11,015	11,565
Digital Media	(901 )	1,372	(3,394 )	3,445
Other	16	13	49	23
Total gross profit	3,530	5,319	7,670	15,033
Operating (loss) income				
Cinema	3,383	3,028	7,681	8,593
Digital Media	(2,563 )	(84 )	(10,042)	(2,094 )
Other	(82 )	(98 )	(281 )	(289 )
Total segment operating (loss) income	738	2,846	(2,642 )	6,210
Unallocated general and administrative expenses	(1,712 )	(2,298 )	(6,939 )	(7,090 )
Unallocated loss on disposal of assets	(818 )	-	(818 )	-
(Loss) income from operations	(1,792 )	548	(10,399)	(880 )
Other income (expense)	561	(392 )	718	(500 )
(Loss) income before income taxes and equity method investment (loss) income	\$(1,231 )	\$156	\$(9,681 )	\$(1,380 )

(In thousands)	September 30, 2018	December 31, 2017
Identifiable assets		
Cinema	\$ 29,515	\$ 27,358
Digital Media	14,274	13,603
Corporate	16,042	18,053
Total	\$ 59,831	\$ 59,014

**Summary by Geographical Area**

(In thousands)	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Net revenue				
United States	\$12,495	\$15,349	\$36,196	\$44,648
Canada	1,234	1,365	4,148	4,372
Mexico	206	425	1,293	1,164
China	1,581	1,646	2,867	4,543
Latin America	256	461	659	1,263
Europe	456	250	809	427
Asia (excluding China)	160	-	337	216
Other	65	63	149	252
Total	\$16,453	\$19,559	\$46,458	\$56,885

(In thousands)	September	December
	30, 2018	31, 2017
Identifiable assets		
United States	\$ 42,094	\$ 37,230
Canada	17,737	21,784
Total	\$ 59,831	\$ 59,014

Net revenues by business segment are to unaffiliated customers. Net sales by geographical area are based on destination of sales. Identifiable assets by geographical area are based on location of facilities.

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

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. Management's discussion and analysis contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking and reflect expectations for future Company performance. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the "Risk Factors" section contained in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and the following risks and uncertainties: the Company's ability to expand its revenue streams, potential interruptions of supplier relationships or higher prices charged by suppliers, the Company's ability to successfully compete and introduce enhancements and new features that achieve market acceptance and that keep pace with technological developments, the Company's ability to successfully execute its capital allocation strategy, the Company's ability to retain or replace its significant customers, the impact of a challenging global economic environment or a downturn in the markets, economic and political risks of selling products in foreign countries, risks of non-compliance with U.S. and foreign laws and regulations, cybersecurity risks and risks of damage and interruptions of information technology systems, the Company's ability to retain key members of management and successfully integrate new executives, the Company's ability to complete acquisitions, strategic investments, entry into new lines of business, divestitures, mergers or other transactions on acceptable terms or at all, the Company's ability to assert its intellectual property rights, the impact of natural disasters and other catastrophic events, the adequacy of insurance and the impact of having a controlling stockholder. Given the risks and uncertainties, readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein, as well as others not now anticipated. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

**Overview**

Ballantyne Strong, Inc. ("BTN", "Ballantyne", "the Company", "we", "our" and "us") is a holding company with diverse business activities focused on serving the cinema, retail, financial, advertising and government markets. The Company and its subsidiaries design, integrate and install technology solutions for a broad range of applications; develop and deliver out-of-home messaging, advertising and communications; manufacture projection screens; and provide managed services including monitoring of networked equipment to our customers. We add value through our design,

engineering, manufacturing excellence and customer service.

We conduct our operations through two primary business segments: Cinema and Digital Media. The Cinema segment provides a full range of product and service solutions primarily for the theater exhibition industry, including a wide spectrum of premier audio-visual products and accessories such as digital projectors, state of the art projection screens, servers, library management systems, menu boards, flat panel displays and sound systems. The Digital Media segment delivers solutions and services across two primary markets: digital out-of-home and enterprise video.

Our segments were determined based on the manner in which management organizes segments for making operating decisions and assessing performance. Approximately 71% of our revenues for the nine months ended September 30, 2018 were from Cinema and approximately 29% were from Digital Media. Additional information related to our reporting segments can be found in the notes to the condensed consolidated financial statements.

**Results of Operations:****Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017****Revenues**

Net revenues during the quarter ended September 30, 2018 decreased 15.9% to \$16.5 million from \$19.6 million during the quarter ended September 30, 2017.

	Three Months Ended September 30,		\$	%
	2018	2017	Change	Change
	(dollars in thousands)			
Cinema	\$11,560	\$12,290	\$(730 )	(5.9 )%
Digital Media	5,050	7,595	(2,545 )	(33.5 )%
Other	16	13	3	23.1 %
Total segment revenues	16,626	19,898	(3,272 )	(16.4 )%
Eliminations	(173 )	(339 )	166	(49.0 )%
Total net revenues	\$16,453	\$19,559	\$(3,106 )	(15.9 )%

**Cinema**

Sales of Cinema products and services decreased 5.9% to \$11.6 million in the third quarter of 2018 from \$12.3 million in the third quarter of 2017. The decrease was driven primarily by lower sales of screens, digital cinema equipment and non-recurring maintenance services, partially offset by higher sales of screen support systems and installation services.

**Digital Media**

Sales of Digital Media products and services decreased 33.5% to \$5.1 million in the third quarter of 2018 from \$7.6 million in the third quarter of 2017. The decrease was driven primarily by lower revenue from installation services and smaller decreases in contract maintenance revenue, sales of digital signage equipment and revenue from non-recurring maintenance. These decreases were partially offset by \$1.5 million of revenue in the current year from our taxicab advertising business that did not exist in the prior year.

### **Export Revenues**

Sales outside the United States (primarily from the Cinema segment) decreased to \$4.0 million in the third quarter of 2018 from \$4.2 million for the same quarter of last year due primarily to decreased sales in Canada, Mexico and other parts of Latin America, partially offset by increased sales in Europe. Export sales are sensitive to worldwide economic and political conditions that lead to volatility. Certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers, making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.



**Gross Profit**

Gross profit during the quarter ended September 30, 2018 decreased 33.6% to \$3.5 million from \$5.3 million during the quarter ended September 30, 2017.

	Three Months Ended September 30,		\$	%	
	2018	2017	Change	Change	
	(dollars in thousands)				
Cinema	\$4,415	\$3,934	\$481	12.2	%
Digital Media	(901 )	1,372	(2,273 )	(165.7 )	%
Other	16	13	3	23.1	%
Total gross profit	\$3,530	\$5,319	\$(1,789 )	(33.6 )	%

**Cinema**

Gross profit in the Cinema segment was \$4.4 million or 38.2% of revenues in the third quarter of 2018 compared to \$3.9 million or 32.0% of revenues in the third quarter of 2017. The increase in gross profit dollars and gross margin percentage was driven primarily by decreases in screen warranty expense, inventory reserves and warehousing costs. We expect the lower warehousing costs to continue into future periods, as we downsized our Cinema warehouse operations in the second quarter of 2018.

**Digital Media**

Gross loss in the Digital Media segment was \$0.9 million in the third quarter of 2018 compared to gross profit of \$1.4 million in the third quarter of 2017. The decrease in gross margin dollars was driven primarily by the fixed costs associated with our new advertising operations that we did not incur in the prior year. During the first quarter of 2018, we signed an agreement to provide advertising services on over 3,500 New York City taxicabs. The advertising is on a combination of vinyl printed signs and digital signs. We have leased 300 digital signs, which were installed throughout the first half of 2018. In addition to lease expense for the digital signs, we incur fixed fees payable to our taxicab counterparties for advertising access and maintenance. We expect gross losses in the taxicab advertising business will continue into 2019 until enough advertising revenue can be generated to cover these fixed costs. Excluding the new costs associated with the advertising business, the gross profit in the Digital Media segment was

approximately breakeven during the third quarter of 2018, or a decrease of approximately \$1.4 million compared to the third quarter of 2017. This decrease was driven primarily by lower revenues as described above.

### Operating (Loss) Income

We generated an operating loss of \$1.8 million in the third quarter of 2018 compared to operating income of \$0.5 million in the third quarter of 2017.

	Three Months Ended September 30,			
	2018	2017	\$ Change	% Change
	(dollars in thousands)			
Cinema	\$3,383	\$3,028	\$355	11.7 %
Digital Media	(2,563)	(84 )	(2,479 )	2,951.2%
Other	(82 )	(98 )	16	(16.3 )%
Total segment operating income	738	2,846	(2,108 )	(74.1 )%
Unallocated general and administrative expenses	(1,712)	(2,298)	586	(25.5 )%
Unallocated loss on disposal of assets	(818 )	-	(818 )	N/A
Total operating (loss) income	\$(1,792)	\$548	\$(2,340 )	(427.0 )%

We generated operating income in the Cinema segment of \$3.4 million in the third quarter of 2018 compared to \$3.0 million in the third quarter of 2017. The increase in operating income was driven primarily by higher gross profit as described above.

The Digital Media segment generated an operating loss of \$2.6 million in the third quarter of 2018 compared to \$0.1 million in the third quarter of 2017. The increase in the operating loss was driven primarily by lower gross profit as described above.

Unallocated general and administrative expenses decreased to \$1.7 million in the third quarter of 2018 compared to \$2.3 million in the third quarter of 2017. The decrease was driven primarily by lower consulting and employee compensation and benefits expenses. Unallocated loss on disposal of assets consisted primarily of a \$0.8 million loss on abandonment of an internally-developed software intangible asset in the third quarter of 2018.

### **Other Financial Items**

For the third quarter of 2018, total other income of \$0.6 million primarily consisted of a \$0.8 million fair value adjustment to our notes receivable, partially offset by \$0.2 million of interest expense. For the third quarter of 2017, total other expense of \$0.4 million primarily consisted of \$0.3 million of foreign currency transaction losses and interest expense of \$0.1 million. The increase in interest expense was due to higher average debt outstanding in 2018 compared to 2017.

The effective tax rate differs from the statutory rates primarily as a result of the valuation allowance recorded against the Company's U.S. tax jurisdiction deferred tax assets and differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. Our income tax expense consists primarily of income tax on foreign earnings.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), was signed into law in the United States. The law includes significant changes to the United States corporate income tax system, including a federal corporate rate reduction and the transition of the United States from a worldwide tax system to a territorial tax system. As part of the transition to a territorial tax system, the 2017 Tax Act requires taxpayers to calculate a one-time transition tax based on the deemed repatriation of undistributed earnings of foreign subsidiaries. We currently are analyzing the 2017 Tax Act and, in certain areas, have made provisional estimates of the effects on our consolidated financial statements and tax disclosures, including the amount of the repatriation tax and changes to our existing deferred tax balances.

The third quarter of 2018 includes equity method investment income of \$0.5 million, primarily consisting of a gain of \$0.4 million on the sale of BKT common stock. Equity method investment loss in the third quarter of 2017 amounted to \$0.8 million, primarily consisting of losses from Itasca of \$1.0 million, partially offset by income from PIH of \$0.2 million.

As a result of the items outlined above, we generated a net loss from continuing operations of approximately \$1.2 million and basic and diluted loss per share from continuing operations of \$0.08 in the third quarter of 2018, compared to a net loss from continuing operations of \$1.0 million and basic and diluted loss per share from continuing operations of \$0.07 in the third quarter of 2017.

**Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017****Revenues**

Net revenues during the nine months ended September 30, 2018 decreased 18.3% to \$46.5 million from \$56.9 million during the nine months ended September 30, 2017.

	Nine Months Ended September 30,		\$	%
	2018	2017	Change	Change
	(dollars in thousands)			
Cinema	\$33,438	\$38,153	\$(4,715 )	(12.4 )%
Digital Media	13,593	19,277	(5,684 )	(29.5 )%
Other	49	22	27	122.7 %
Total segment revenues	47,080	57,452	(10,372)	(18.1 )%
Eliminations	(622 )	(567 )	(55 )	9.7 %
Total net revenues	\$46,458	\$56,885	\$(10,427)	(18.3 )%

**Cinema**

Sales of Cinema products and services decreased 12.4% to \$33.4 million in the first nine months of 2018 from \$38.2 million in the first nine months of 2017. The decrease was driven by a decrease in lamp sales, as we terminated our distributorship for certain cinema lamp products in July 2017 due to the very low margins earned on these products, along with decreased sales of screens, and non-recurring maintenance services, partially offset by increased revenues from installation services.

**Digital Media**

Sales of Digital Media products and services decreased 29.5% to \$13.6 million in the first nine months of 2018 from \$19.3 million in the first nine months of 2017. The decrease was driven primarily by lower revenue from non-recurring installation and maintenance services, sales of digital signage equipment and contract maintenance

services, partially offset by revenue in the current year from our taxicab advertising business that did not exist in the prior year and increased digital signage as a service revenues.

### Export Revenues

Sales outside the United States (primarily from the Cinema segment) decreased to \$10.3 million in the first nine months of 2018 from \$12.2 million for the same period of the prior year due primarily to decreased sales in China and Latin America (excluding Mexico), partially offset by increased sales in Mexico and Europe.

### Gross Profit

Gross profit during the first nine months of 2018 decreased 49.0% to \$7.7 million from \$15.0 million during the first nine months of 2017.

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
	(dollars in thousands)			
Cinema	\$11,015	\$11,565	\$(550 )	(4.8 )%
Digital Media	(3,394 )	3,445	(6,839 )	(198.5 )%
Other	49	23	26	113.0 %
Total gross profit	\$7,670	\$15,033	\$(7,363 )	(49.0 )%

Cinema

Gross profit in the Cinema segment was \$11.0 million or 32.9% of revenues in the first nine months of 2018 compared to \$11.6 million or 30.3% of revenues in the first nine months of 2017. The decrease in gross profit dollars was driven primarily by decreased revenues as described above along with higher personnel costs in our cinema field service business, partially offset by lower warranty expenses and warehousing costs. We expect the lower warehousing costs to continue into future periods, as we downsized our Cinema warehouse operations in the second quarter of 2018.

Digital Media

Gross loss in the Digital Media segment was \$3.4 million in the first nine months of 2018 compared to gross profit of \$3.4 million in the first nine months of 2017. The decrease in gross profit dollars was driven primarily by the fixed costs associated with our new taxicab advertising operations that we did not incur in the prior year. Excluding the new costs associated with the advertising business, the gross profit in the Digital Media segment amounted to approximately \$0.7 million during the first nine months of 2018, or a decrease of approximately \$2.7 million compared to the first nine months of 2017. This decrease was driven primarily by lower revenues as described above and higher inventory obsolescence charges.

**Operating (Loss) Income**

We generated an operating loss of \$10.4 million in the first nine months of 2018 compared to \$0.9 million in the first nine months of 2017.

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
	(dollars in thousands)			
Cinema	\$7,681	\$8,593	\$(912 )	(10.6 )%
Digital Media	(10,042)	(2,094)	(7,948 )	379.6 %
Other	(281 )	(289 )	8	(2.8 )%
Total segment operating (loss) income	(2,642 )	6,210	(8,852 )	(142.5 )%
Unallocated general and administrative expenses	(6,939 )	(7,090)	151	(2.1 )%

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Unallocated loss on disposal of assets	(818 )	-	(818 )	N/A
Total operating loss	\$(10,399)	\$(880 )	\$(9,519)	1,081.7%

We generated operating income in the Cinema segment of \$7.7 million in the first nine months of 2018 compared to \$8.6 million in the first nine months of 2017. The decrease in operating income was driven primarily by lower revenues and gross profit as described above.

The Digital Media segment generated an operating loss of \$10.0 million in the first nine months of 2018 compared to \$2.1 million in the first nine months of 2017. The decrease was driven primarily by lower gross profit as described above, along with a \$1.3 million loss on abandonment of an internally-developed software intangible asset.

Unallocated general and administrative expenses decreased to \$6.9 million in the first nine months of 2018 compared to \$7.1 million in the first nine months of 2017. The decrease was driven by lower consulting costs, partially offset by increased employee compensation and benefits and professional services costs. Unallocated loss on disposal of assets consisted primarily of a \$0.8 million loss on abandonment of an internally-developed software intangible asset.

### **Other Financial Items**

For the first nine months of 2018, total other income of \$0.7 million primarily consisted of a \$1.0 million fair value adjustment to our notes receivable, partially offset by \$0.3 million of interest expense. For the first nine months of 2017, total other expense of \$0.5 million primarily consisted of \$0.4 million of foreign currency transaction losses and \$0.1 million of interest expense. The increase in interest expense was due to higher average debt outstanding in 2018 compared to 2017.



The effective tax rate differs from the statutory rates primarily as a result of the valuation allowance recorded against the Company's U.S. tax jurisdiction deferred tax assets and differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. Our income tax expense consists primarily of income tax on foreign earnings.

The first nine months of 2018 includes an equity method investment loss of \$0.2 million, consisting of an other-than-temporary impairment charge of \$0.7 million and equity method investment loss of \$0.2 million from Itasca and an equity method investment loss of \$0.4 million from BKTI, partially offset by equity method investment income of \$0.6 million from PIH and a gain on the sale of BKTI common stock of \$0.4 million. Equity method investment income in the first nine months of 2017 amounted to \$1.5 million, primarily consisting of \$1.3 million of income from Itasca and \$0.2 million of income from PIH.

As a result of the items outlined above, we generated a net loss from continuing operations of approximately \$11.8 million and basic and diluted loss per share from continuing operations of \$0.82 in the first nine months of 2018, compared to a net loss from continuing operations of \$2.6 million and basic and diluted loss per share from continuing operations of \$0.18 in the first nine months of 2017.

### **Liquidity and Capital Resources**

During the past several years, we have primarily met our working capital and capital resource needs from our operating cash flows and credit facilities. During the first quarter of 2018, we signed an agreement to provide advertising services on over 3,500 New York City taxicabs. The advertising is on a combination of vinyl printed signs and digital signs. We have leased 300 digital signs, which were installed throughout the first and second quarters of 2018. In addition to lease expense for the digital signs, we incur fixed fees payable to our taxicab counterparties for advertising access and maintenance. We expect that the new advertising business will continue to negatively impact our cash flow into 2019 as we incur costs without collecting equivalent revenues during the start-up phase. However, we believe that our existing sources of liquidity, including cash and cash equivalents, credit facilities and operating cash flow will be sufficient to meet our projected capital needs for the foreseeable future. We ended the third quarter of 2018 with total cash and cash equivalents of \$5.7 million, compared to \$4.9 million at December 31, 2017.

As of September 30, 2018, \$1.2 million of the \$5.7 million in cash and cash equivalents was held by our Canadian subsidiary, Strong/MDI. If these funds are repatriated to our operations in the U.S., we would be required to pay Canadian withholding taxes, which have been fully accrued as of September 30, 2018. Strong/MDI also may make intercompany loans to the U.S. parent company, which do not trigger Canadian withholding taxes if they meet certain requirements. As of September 30, 2018, the parent company had outstanding intercompany loans from Strong/MDI of approximately \$28.8 million, compared to approximately \$19.4 million at December 31, 2017.

On May 22, 2018, our subsidiary, Convergent, entered into an installment payment agreement with an equipment financing company in order to purchase media players and related equipment in an aggregate amount of up to approximately \$4.4 million. Installment payments under each contract for purchase of the equipment are due monthly for a period of 60 months. The financing provided in the agreement is secured by the equipment. The borrowings under the agreement bear interest at a fixed rate based on the three-year U.S. Treasury Note yield plus a spread at the time of funding. At September 30, 2018, we had \$3.9 million of outstanding borrowings under the agreement, which bear interest at a weighted-average fixed rate of 5.8%.

On June 29, 2018, Convergent completed a sale-leaseback of its Alpharetta, Georgia office facility. Convergent sold the Alpharetta facility for \$7.0 million in cash and we entered into a 10-year leaseback of the facility for rent in the amount of \$600,000 per year, escalating at the rate of 2% per year. Due to our continuing involvement in the building, the transaction was accounted for as a financing rather than a normal leaseback. Upon closing, Convergent's term loan and revolving line of credit that previously were secured by the Alpharetta facility were repaid, and the related debt agreement was terminated.

In 2017, our Canadian subsidiary, Strong/MDI, entered into a demand credit agreement consisting of a revolving line of credit for up to CDN\$3.5 million subject to a borrowing base requirement, a 20-year installment loan for up to CDN\$6.0 million and a 5-year installment loan for up to CDN\$500,000. The Strong/MDI credit facilities are secured by a lien on Strong/MDI's Quebec, Canada facility and substantially all of Strong/MDI's assets. On April 24, 2018, the Company borrowed CDN\$3.5 million on the 20-year installment loan. There was CDN\$3.38 million of principal outstanding on the 20-year installment loan as of September 30, 2018. The outstanding principal bears variable interest based on the lender's prime rate plus 0.5%, which equaled 4.28% on September 30, 2018. Strong/MDI was in compliance with its debt covenants as of September 30, 2018.

*Cash Flows from Operating Activities*

The following table provides information that we use in analyzing our cash flows from operating activities of continuing operations (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Net cash used in operating activities - continuing operations	\$(8,796)	\$(913 )
Less:		
Changes in working capital	(2,900)	(471 )
Foreign currency transaction gain (loss)	41	(410 )
Dividends received from investee	817	-
Current income tax expense	(1,982)	(2,017)
Net interest expense	(267 )	(66 )
Other	(10 )	(1 )
Subtotal - reconciling items	(4,301)	(2,965)
Operating (loss) income, excluding noncash operating expenses (non-GAAP)	\$(4,495)	\$2,052

Operating (loss) income, excluding noncash operating expenses, is a non-GAAP financial measure that we use only for the purpose of analyzing net cash provided by (used in) operating activities. It is defined as operating income (loss), adjusted to remove noncash operating expenses consisting of provisions for doubtful accounts, obsolete inventory and warranty, depreciation and amortization, impairment of intangible assets, loss on disposal or transfer of assets, amortization of contract acquisition costs and stock-based compensation expense.

Net cash used in operating activities from continuing operations was \$8.8 million in the first nine months of 2018, as operating loss, excluding noncash expenses, of \$4.5 million, changes in working capital of \$2.9 million, current income tax expense of \$2.0 million and net interest expense of \$0.3 million were partially offset by dividends received from an equity method investee of \$0.8 million. The unfavorable net change in working capital was primarily due to a \$4.2 million increase in accounts receivable and a \$1.0 million increase in other current and noncurrent assets partially offset by a \$1.4 million increase in deferred revenue and customer deposits, a \$0.4 million decrease in inventory and a \$0.4 million increase in accounts payable and accrued expenses.

Net cash used in operating activities from continuing operations was \$0.9 million in the first nine months of 2017, as operating income, excluding noncash expenses, of \$2.1 million was offset by unfavorable changes in working capital of \$0.5 million, current income tax expense of \$2.0 million and foreign currency transaction losses of \$0.4 million. The unfavorable net change in working capital was primarily due to a \$1.2 million decrease in deferred revenue and

customer deposits, partially offset by a \$0.4 million decrease in accounts receivable and a \$0.4 million increase in accounts payable and accrued expenses.

*Cash Flows from Investing Activities*

Net cash provided by investing activities was \$3.4 million in the first nine months of 2018, consisting primarily of \$4.5 million of proceeds from our sale of BKTJ common stock, partially offset by \$1.2 million of capital expenditures. Net cash used in investing activities was \$5.2 million in the first nine months of 2017, primarily due to \$2.5 million used in purchases of equity securities and \$2.9 million of capital expenditures.

### *Cash Flows from Financing Activities*

Net cash provided by financing activities was \$6.7 million in the first nine months of 2018, consisting primarily of \$7.0 million of proceeds from the sale-leaseback of our Alpharetta, GA office facility and \$3.2 million of proceeds from issuance of short-term debt, partially offset by \$3.4 million of principal payments on debt, including repayment in conjunction with the sale-leaseback of approximately \$3.0 million of short-term and long-term debt previously secured by the Alpharetta, GA facility. Net cash provided by financing activities in the first nine months of 2017 was \$2.2 million due to \$2.5 million of proceeds from issuance of debt, offset slightly by \$0.1 million of treasury stock purchases and \$0.2 million of capital lease payments.

The effect of changes in foreign exchange rates decreased cash and cash equivalents by \$0.1 million in the first nine months of 2018 and increased cash and cash equivalents by \$0.3 million in the first nine months of 2017.

### **Hedging and Trading Activities**

Our primary exposure to foreign currency fluctuations pertains to our subsidiary in Canada. In certain instances, we may enter into a foreign exchange contract to manage a portion of this risk. We do not have any trading activities that include non-exchange traded contracts at fair value.

### **Seasonality**

Generally, our revenue and earnings fluctuate moderately from quarter to quarter. As we increase our sales in our current markets, and as we expand into new markets in different geographies, it is possible we may experience different seasonality patterns in our business. As a result, the results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for an entire fiscal year.

### **Recently Issued Accounting Pronouncements**

See Note 3, Summary of Significant Accounting Policies to the condensed consolidated financial statements for a description of recently issued accounting pronouncements.

### **Critical Accounting Policies and Estimates**

In preparing our consolidated financial statements in conformity with U.S. generally accepted accounting principles, management must make a variety of decisions which impact the reported amounts and the related disclosures. These decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In making these decisions, management applies its judgment based on its understanding and analysis of the relevant circumstances and our historical experience.

Our accounting policies and estimates that are most critical to the presentation of our results of operations and financial condition, and which require the greatest use of judgments and estimates by management, are designated as our critical accounting policies. See further discussion of our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for our year ended December 31, 2017. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. Other than policies related to the adoption of ASC 606 as described in Note 4 to the condensed consolidated financial statements, there were no significant changes in our critical accounting policies during the nine months ended September 30, 2018.

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

Not applicable.

***Item 4. Controls and Procedures***

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective at ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (as amended) is (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

**PART II. Other Information**

***Item 1. Legal Proceedings***

In the ordinary course of business operations, we are involved, from time to time, in certain legal disputes. No such disputes, individually or in the aggregate, are expected to have a material effect on our business or financial condition.

***Item 1A. Risk Factors***

Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 includes a detailed discussion of the Company's risk factors. There have been no material changes to the risk factors as previously disclosed.

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

On August 20, 2015, we announced that our Board of Directors adopted a stock repurchase program authorizing the repurchase of up to 700,000 shares of our outstanding Common Stock pursuant to a plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 (as amended). The repurchase program has no expiration date. There were no repurchases during the three months ended September 30, 2018. As of September 30, 2018, there were 636,931 shares that may yet be purchased under the stock repurchase program.

***Item 5. Other Information***

As previously disclosed, the Company's 2018 Annual Meeting of Stockholders is scheduled to be held on November 28, 2018. This date is more than 30 days after the anniversary of the Company's 2017 Annual Meeting of Stockholders. As a result, stockholder proposals intended to be considered for inclusion in the Company's proxy materials for the 2018 Annual Meeting of Stockholders had to be submitted to the Company a reasonable time before the Company began printing and sending its proxy materials.

Since the date of the Company's 2018 Annual Meeting of Stockholders has been delayed by more than 60 days from the anniversary of the Company's 2017 Annual Meeting of Stockholders, in accordance with the Company's Bylaws, stockholder nominations of director candidates and stockholder proposals to be presented at the 2018 Annual Meeting of Stockholders, but not submitted for inclusion in the Company's proxy materials, had to be delivered to the Secretary of the Company no later than October 15, 2018.

The Bylaws specify the information that had to accompany any such stockholder notices. The Company did not receive any such proposals or nominations.



*Item 6. Exhibits*

Exhibit Number	Document Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.1	<u>Letter Agreement, dated as of September 9, 2018, by and between Ballantyne Strong, Inc. and Fundamental Global Investors, LLC.</u>	8-K	10.1	9-12-18	
31.1	<u>Rule 13a-14(a) Certification of Chief Executive Officer.</u>				X
31.2	<u>Rule 13a-14(a) Certification of Chief Financial Officer.</u>				X
32.1*	<u>18 U.S.C. Section 1350 Certification of Chief Executive Officer.</u>				X
32.2*	<u>18 U.S.C. Section 1350 Certification of Chief Financial Officer.</u>				X
101	The following materials from Ballantyne Strong, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Loss, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to the Condensed Consolidated Financial Statements.				X

\*Furnished herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BALLANTYNE STRONG, INC.

By: */s/ D. Kyle Cerminara*  
D. Kyle Cerminara,

Chairman of the Board of Directors and Chief  
Executive Officer (Principal Executive Officer)

By: */s/ Lance V. Schulz*  
Lance V. Schulz,  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)

Date: November 6, 2018

Date: November 6, 2018

