

BALLANTYNE STRONG, INC.  
Form 10-Q  
August 04, 2016

**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 June 30, 2016**

**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)

**13710 FNB Parkway, Suite 400, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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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 August 1, 2016</b> |
|--------------------------------|---|
| Common Stock, \$.01, par value | 14,236,264 shares                       |

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

|  | June 30,<br>2016<br>(Unaudited) | December<br>31, 2015 |
|--|---------------------------------|----------------------|
| Assets   |                                 |                      |
| Current assets:  |                                 |                      |
| Cash and cash equivalents  | \$ 12,787                       | \$ 17,862            |
| Accounts receivable (net of allowance for doubtful accounts of \$1,071 and \$1,207, respectively)    | 14,556                          | 11,032               |
| Inventories:   |                                 |                      |
| Finished goods, net  | 6,259                           | 5,651                |
| Work in process  | 416                             | 190                  |
| Raw materials and components, net  | 1,095                           | 1,351                |
| Total inventories, net   | 7,770                           | 7,192                |
| Recoverable income taxes   | 516                             | 85                   |
| Other current assets   | 2,487                           | 2,556                |
| Current assets held for sale   | 1,797                           | 7,219                |
| Total current assets   | 39,913                          | 45,946               |
| Property, plant and equipment (net of accumulated depreciation of \$7,875 and \$6,578, respectively) | 11,414                          | 11,703               |
| Marketable securities  | 1,812                           | 2,101                |
| Equity method investments  | 7,766                           | 4,001                |
| Intangible assets, net   | 526                             | 235                  |
| Goodwill   | 924                             | 863                  |
| Notes receivable   | 1,669                           | 1,669                |
| Other assets   | 105                             | 281                  |
| Noncurrent assets held for sale  | —                               | 65                   |
| Total assets   | \$ 64,129                       | \$ 66,864            |
| Liabilities and Stockholders' Equity   |                                 |                      |
| Current liabilities:   |                                 |                      |
| Accounts payable   | \$ 6,464                        | \$ 4,948             |
| Accrued expenses   | 3,072                           | 3,583                |
| Customer deposits/deferred revenue   | 3,005                           | 3,550                |

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|  |           |           |
|--|-----------|-----------|
| Income tax payable   | 132       | 1,291     |
| Current liabilities held for sale  | 737       | 4,395     |
| Total current liabilities  | 13,410    | 17,767    |
| Deferred revenue   | 1,266     | 1,288     |
| Deferred income taxes  | 1,605     | 1,716     |
| Other accrued expenses, net of current portion   | 1,306     | 1,581     |
| Total liabilities  | 17,587    | 22,352    |
| 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 17,002 and 16,925 shares at June 30, 2016 and December 31, 2015, respectively; 14,237 and 14,191 shares outstanding at June 30, 2016 and December 31, 2015, respectively | 169       | 169       |
| Additional paid-in capital   | 39,454    | 39,157    |
| Accumulated other comprehensive income:  |           |           |
| Foreign currency translation   | (4,604 )  | (6,229 )  |
| Postretirement benefit obligations   | 74        | 74        |
| Unrealized gain on available-for-sale securities of equity method investment   | 21        | —         |
| Retained earnings  | 29,815    | 29,595    |
|  | 64,929    | 62,766    |
| Less 2,765 and 2,734 of common shares in treasury, at cost at June 30, 2016 and December 31, 2015  | (18,387 ) | (18,254 ) |
| Total stockholders' equity   | 46,542    | 44,512    |
| Total liabilities and stockholders' equity   | \$ 64,129 | \$ 66,864 |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****Three and Six Months Ended June 30, 2016 and 2015****(In thousands, except per share data)****(Unaudited)**

|   | Three Months<br>Ended June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2016                           | 2015       | 2016                         | 2015       |
| Net product sales   | \$14,862                       | \$12,064   | \$26,597                     | \$26,019   |
| Net service revenues  | 5,696                          | 5,767      | 11,075                       | 10,962     |
| Total net revenues  | 20,558                         | 17,831     | 37,672                       | 36,981     |
| Cost of products sold   | 11,280                         | 10,661     | 20,038                       | 22,141     |
| Cost of services  | 3,129                          | 3,675      | 6,249                        | 7,089      |
| Total cost of revenues  | 14,409                         | 14,336     | 26,287                       | 29,230     |
| Gross profit  | 6,149                          | 3,495      | 11,385                       | 7,751      |
| Selling and administrative expenses:                                    |                                |            |                              |            |
| Selling   | 1,149                          | 1,344      | 2,174                        | 2,932      |
| Administrative  | 3,037                          | 3,885      | 6,136                        | 7,456      |
| Total selling and administrative expenses                               | 4,186                          | 5,229      | 8,310                        | 10,388     |
| Gain (loss) on the sale or disposal of assets                           | —                              | (381 )     | 1                            | (378 )     |
| Income (loss) from operations   | 1,963                          | (2,115 )   | 3,076                        | (3,015 )   |
| Other income (expense):   |                                |            |                              |            |
| Interest income   | 27                             | 167        | 40                           | 331        |
| Interest expense  | (27 )                          | (15 )      | (40 )                        | (31 )      |
| Foreign currency transaction (expense) gain                             | (180 )                         | (81 )      | (1,005 )                     | 556        |
| Change in value of marketable securities                                | 116                            | —          | (366 )                       | —          |
| Excess distribution from joint venture                                  | 502                            | —          | 502                          | —          |
| Other income, net   | 6                              | 17         | 43                           | 24         |
| Total other income (expense)  | 444                            | 88         | (826 )                       | 880        |
| Earnings (loss) before income taxes and equity method investment income | 2,407                          | (2,027 )   | 2,250                        | (2,135 )   |
| Income tax expense  | (653 )                         | (911 )     | (1,337 )                     | (10,696)   |
| Equity method investment income   | —                              | 94         | 41                           | 94         |
| Net earnings (loss) from continuing operations                          | 1,754                          | (2,844 )   | 954                          | (12,737)   |
| Net loss from discontinued operations, net of tax                       | (921 )                         | (75 )      | (734 )                       | (347 )     |
| Net earnings (loss)   | \$833                          | \$(2,919 ) | \$220                        | \$(13,084) |
| <b>Net earnings (loss) per share - basic</b>                            |                                |            |                              |            |
| Net earnings (loss) from continuing operations                          | \$0.12                         | \$(0.20 )  | \$0.07                       | \$(0.90 )  |
| Net loss from discontinued operations                                   | (0.06 )                        | (0.01 )    | (0.05 )                      | (0.03 )    |
| Net earnings (loss)   | \$0.06                         | \$(0.21 )  | \$0.02                       | \$(0.93 )  |
| Net earnings (loss) per share - diluted                                 |                                |            |                              |            |
| Net earnings (loss) from continuing operations                          | \$0.12                         | \$(0.20 )  | \$0.07                       | \$(0.90 )  |

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|                                       |         |           |         |           |
|---------------------------------------|---------|-----------|---------|-----------|
| Net loss from discontinued operations | (0.06 ) | (0.01 )   | (0.05 ) | (0.03 )   |
| Net earnings (loss)                   | \$0.06  | \$(0.21 ) | \$0.02  | \$(0.93 ) |

See accompanying notes to condensed consolidated financial statements.



**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income**

**Three and Six Months Ended June 30, 2016 and 2015**

**(In thousands)**

**(Unaudited)**

|  | Three Months<br>Ended<br>June 30, |           | Six Months<br>Ended<br>June 30, |            |
|--|-----------------------------------|-----------|---------------------------------|------------|
|  | 2016                              | 2015      | 2016                            | 2015       |
| Net earnings (losses)  | \$833                             | \$(2,919) | \$220                           | \$(13,084) |
| Currency translation adjustment:   |                                   |           |                                 |            |
| Unrealized net change arising during period                                  | 33                                | 153       | 1,625                           | (968 )     |
| Unrealized gain on available-for-sale securities of equity method investment | 21                                | —         | 21                              | —          |
| Other comprehensive gain (loss)  | 54                                | 153       | 1,646                           | (968 )     |
| Comprehensive income (loss)  | \$887                             | \$(2,766) | \$1,866                         | \$(14,052) |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****Six Months Ended June 30, 2016 and 2015****(In thousands)****(Unaudited)**

|  | Six Months Ended<br>June 30, |            |
|--|------------------------------|------------|
|  | 2016                         | 2015       |
| Cash flows from operating activities:  |                              |            |
| Net earnings (loss)  | \$220                        | \$(13,084) |
| Net loss from discontinued operations, net of tax  | 734                          | 347        |
| Net earnings (loss) from continuing operations   | 954                          | (12,737)   |
| Adjustments to reconcile net loss from continuing operations to net cash (used in) provided by operating activities: |                              |            |
| Provision for doubtful accounts  | (44 )                        | 24         |
| Provision for obsolete inventory   | 47                           | 957        |
| Provision for warranty   | 171                          | 310        |
| Depreciation and amortization  | 1,127                        | 1,245      |
| Equity method investment income  | (41 )                        | (94 )      |
| Change in value of marketable securities   | 366                          | —          |
| (Gain) loss on disposal or transfer of assets  | (1 )                         | 378        |
| Deferred income taxes  | (146 )                       | 8,812      |
| Share-based compensation expense   | 244                          | 151        |
| Changes in operating assets and liabilities:   |                              |            |
| Accounts, unbilled and notes receivable  | (2,684 )                     | 6,683      |
| Inventories  | (522 )                       | 227        |
| Other current assets   | (320 )                       | (524 )     |
| Accounts payable   | 1,361                        | (2,518 )   |
| Accrued expenses   | 358                          | (697 )     |
| Customer deposits/deferred revenue   | (570 )                       | (682 )     |
| Income taxes payable   | (1,620 )                     | 837        |
| Other assets   | (124 )                       | (126 )     |
| Net cash flows from operating activities – continuing operations   | (1,444 )                     | 2,246      |
| Net cash flows from operating activities – discontinued operations   | (2,724 )                     | 667        |
| Net cash (used in) provided by operating activities  | (4,168 )                     | 2,913      |
| Cash flows from investing activities:  |                              |            |
| Purchase of equity securities  | (3,764 )                     | —          |
| Dividend from equity method investment   | 103                          | —          |
| Capital expenditures   | (653 )                       | (240 )     |

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|  |          |          |
|--|----------|----------|
| Proceeds from sale of assets   | —        | 5        |
| Net cash used in investing activities – continuing operations                          | (4,314 ) | (235 )   |
| Cash flows from financing activities:  |          |          |
| Purchase of treasury stock   | (133 )   | —        |
| Proceeds from exercise of stock options  | 53       | —        |
| Payments on capital lease obligations  | (159 )   | (14 )    |
| Excess tax benefits from share-based arrangements                                      | 6        | 11       |
| Net cash used in financing activities – continuing operations                          | (233 )   | (3 )     |
| Effect of exchange rate changes on cash and cash equivalents –continuing operations    | 916      | (517 )   |
| Effect of exchange rate changes on cash and cash equivalents – discontinued operations | (69 )    | 12       |
| Net (decrease) increase in cash and cash equivalents                                   | (7,868 ) | 2,170    |
| Discontinued operations cash activity included above:                                  |          |          |
| Add: Cash balance included in assets held for sale at beginning of period              | 4,208    | 3,190    |
| Less: Cash balance included in assets held for sale at end of period                   | (1,415 ) | (3,886 ) |
| Cash and cash equivalents at beginning of period                                       | 17,862   | 19,301   |
| Cash and cash equivalents at end of period   | \$12,787 | \$20,775 |
| Supplemental disclosure of non-cash investing and financing activities:                |          |          |
| Capital lease obligations for property and equipment                                   | \$—      | \$226    |

See accompanying notes to condensed consolidated financial statements.

## **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, and government markets. The Company and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Strong Westrex (Beijing) Technology Inc., Convergent Corporation and Convergent Media Systems Corporation (“Convergent” or “CMS”) 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.

The Company’s products are distributed to the cinema, retail, financial, and government markets throughout the world.

#### **2. Discontinued Operations**

On June 21, 2016, the Company’s Board of Directors approved a plan under which the Company will pursue a sale of the operations conducted by its subsidiaries Strong Westrex (Beijing) Technology Inc. and Strong Westrex Inc. (the “China Operations”) which was historically included in the Cinema segment. We expect to complete the sale within the next twelve months. The purpose of the plan is to focus the efforts of the Company on the business units that have opportunities for higher return on invested capital. As part of this plan, the Company incurred charges of \$0.9 million in the second quarter of 2016 which are included in loss from discontinued operations in the condensed consolidated statements of operations. We reflected the results of the China Operations as discontinued operations for all periods presented. The assets and liabilities of the China Operations have been reclassified as assets and liabilities held for sale in the condensed consolidated balance sheets for all periods presented.

The summary comparative financial results of discontinued operations were as follows (in thousands):

| Three Months   | Six Months     |
|----------------|----------------|
| Ended June 30, | Ended June 30, |

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|   | 2016     | 2015    | 2016     | 2015     |
|---|----------|---------|----------|----------|
| Total net revenues                                | 2,435    | 1,892   | 5,857    | 5,207    |
| Total cost of revenues                            | 2,899    | 1,711   | 5,791    | 5,026    |
| Total selling and administrative expenses         | 346      | 276     | 706      | 594      |
| Loss from operations of discontinued operations   | (810 )   | (95 )   | (640 )   | (413 )   |
| Loss before income taxes                          | (807 )   | (91 )   | (620 )   | (406 )   |
| Income tax (expense) benefit                      | (114 )   | 16      | (114 )   | 59       |
| Net loss from discontinued operations, net of tax | \$(921 ) | \$(75 ) | \$(734 ) | \$(347 ) |

The assets and liabilities classified as held for sale reflected in the condensed consolidated balance sheets were as follows (in thousands):

|                                       | June 30,<br>2016<br>(Unaudited) | December<br>31, 2015 |
|---------------------------------------|---------------------------------|----------------------|
| Current assets:                       |                                 |                      |
| Cash and cash equivalents             | \$ 1,415                        | \$ 4,208             |
| Accounts receivable, net              | 105                             | 327                  |
| Total inventories, net                | 134                             | 2,500                |
| Other current assets                  | 143                             | 184                  |
| Total current assets held for sale    | \$ 1,797                        | \$ 7,219             |
| Property, plant and equipment, net    | \$ —                            | \$ 65                |
| Total noncurrent assets held for sale | \$ —                            | \$ 65                |
| Current liabilities:                  |                                 |                      |
| Accounts payable                      | \$ 119                          | \$ 2,421             |
| Accrued expenses                      | 242                             | 516                  |
| Customer deposits/deferred revenue    | 376                             | 1,458                |
| Total current liabilities             | \$ 737                          | \$ 4,395             |

### **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 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, 2015.

The condensed consolidated balance sheet as of December 31, 2015 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 condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed 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.

#### ***Marketable Securities***

The Company's marketable securities are comprised of investments in the common stock of a publicly traded company. Changes in fair value, based on the market price of the investee's stock are recognized in other income in the consolidated statement of operations. The Company has elected the fair value option to account for the investment to more appropriately recognize the value of this investment in our consolidated financial statements unless the Company exerts significant influence over the investment, in which case the equity method of accounting would be applied. Marketable securities at fair value were as follows:

|                       | June 30, 2016  |            |            |           |
|-----------------------|----------------|------------|------------|-----------|
|                       | Gross          | Gross      |            | Estimated |
|                       | Cost           | Unrealized | Unrealized | Fair      |
|                       |                | Gains      | Losses     | Value     |
|                       | (in thousands) |            |            |           |
| Marketable securities | \$2,050        | \$         | — \$ 238   | \$ 1,812  |

### *Equity Method Investments*

In December 2015, the Company acquired 7.8% ownership in RELM Wireless Corporation ("RELM") for \$4.0 million and increased its ownership to 8.3% as of June 30, 2016 for an additional \$0.3 million. RELM is a publicly traded company that designs, manufactures and markets two-way land mobile radios, repeaters, base stations, and related components and subsystems. The Company's Chief Executive Officer is a member of the board of directors of RELM, and controls entities that, when combined with the Company's ownership in RELM, own greater than 20% of RELM, providing the Company with significant influence over RELM, but not controlling interest. As a result of this significant influence, the Company accounts for its investment in RELM under the equity method. The Company's carrying value for RELM was \$4.3 million as of June 30, 2016 and the Company's equity method investment income of RELM was not significant during the quarter ended June 30, 2016. Based on quoted market prices, the market value of the Company's ownership in RELM was \$5.8 million at June 30, 2016.

In May 2016, the Company acquired 31.2% ownership in Itasca Capital Ltd. ("Itasca") for \$3.5 million. Itasca is a publicly traded Canadian company that is an investment vehicle seeking transformative strategic investments. The Company's Chief Executive Officer is a member of the board of directors of Itasca. This board seat, combined with the Company's 31% ownership of Itasca, provide the Company with significant influence over Itasca, but not controlling interest. As a result of this significant influence, the Company accounts for its investment in Itasca under the equity method. The Company's carrying value for Itasca was \$3.5 million as of June 30, 2016 and the Company's equity method investment income of Itasca was not significant during the quarter ended June 30, 2016. Based on quoted market prices, the market value of the Company's ownership in Itasca was \$3.5 million at June 30, 2016.

***Fair Value of Financial Instruments***

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 will be 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 and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall.

Fair Values Measured on a Recurring Basis at June 30, 2016:

|                           | Level 1        | Level 2 | Level 3 | Total    |
|---------------------------|----------------|---------|---------|----------|
|                           | (in thousands) |         |         |          |
| Cash and cash equivalents | \$12,787       | \$ —    | \$ —    | \$12,787 |
| Marketable securities     | \$1,812        | \$ —    | \$ —    | \$1,812  |
| Note Receivable           | \$ —           | \$ —    | \$1,669 | \$1,669  |

Fair values measured on a recurring basis at December 31, 2015:

|                           | Level 1        | Level 2 | Level 3 | Total    |
|---------------------------|----------------|---------|---------|----------|
|                           | (in thousands) |         |         |          |
| Cash and cash equivalents | \$17,862       | \$ —    | \$ —    | \$17,862 |
| Marketable securities     | \$2,101        | \$ —    | \$ —    | \$2,101  |
| Notes receivable          | \$ —           | \$ —    | \$1,669 | \$1,669  |

Quantitative information about the Company's level 3 fair value measurements at June 30, 2016 is set forth below:



|                 | Fair Value<br>at<br>6/30/2016<br>(in<br>thousands) | Valuation Technique  | Unobservable input     | Range |   |
|-----------------|--|----------------------|------------------------|-------|---|
|                 |  |                      |                        |       |   |
| Note Receivable | \$ 1,669   | Discounted cash flow | Probability of default | 55    | % |
|                 |  |                      | Discount rate          | 20    | % |

The notes receivable are recorded at estimated fair value at June 30, 2016.

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

The following table reconciles the beginning and ending balance of the Company's notes receivable fair value:

|   | Six months<br>ended June 30,<br>2016 |  | <b>2015</b> |
|---|--------------------------------------|--|-------------|
|   | (in thousands)                       |  |             |
| Notes receivable balance, beginning of period | \$1,669                              |  | \$2,985     |
| Interest income accrued                       | —                                    |  | 279         |
| Notes receivable balance, end of period       | \$1,669                              |  | \$3,264     |

The carrying values of all other financial assets and liabilities including accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the six months ended June 30, 2016, the Company did not have any significant non-recurring measurements of non-financial assets or liabilities.

### ***Recently Issued 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)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance is effective for the Company beginning January 1, 2018. An entity may adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the ASU. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires an entity utilizing the FIFO inventory method to change their measurement principle for inventory changes from the lower of cost or market to lower of cost and net realizable value. The guidance is effective for the Company beginning January 1, 2017. An entity must adopt this ASU prospectively and early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not determined the effect of the standard on its ongoing financial reporting.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). 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. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is not permitted. The adoption of ASU 2016-01 is not expected to have a material effect on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*” (“ASU 2016-02”). 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 requires a modified retrospective transition method. The Company is currently evaluating the potential impact of adopting this guidance and has not determined the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-07, “*Simplifying the Transition to the Equity Method of Accounting,*” (“ASU 2016-07”). ASU 2016-07 eliminates the requirement for the Company to retroactively apply the equity method when its increase in ownership interests (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for the Company on January 1, 2017 with early adoption permitted. The Company has adopted ASU 2016-07 and there was no impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “*Compensation – Stock Compensation (Topic 718)*” (“ASU 2016-09”). ASU 2016-09 simplifies accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This ASU is effective for the Company on January 1, 2017 with early adoption permitted. The Company is currently assessing the impact that this new guidance will have on its consolidated financial statements.

#### 4. Earnings (Loss) Per Common Share

Basic earnings (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. The following table provides the reconciliation between average shares used to compute both basic and diluted earnings (loss) per share:

|  | Three Months<br>Ended June 30, |        | Six Months<br>Ended June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2016                           | 2015   | 2016                         | 2015   |
| Weighted average shares outstanding (in thousands):                                |                                |        |                              |        |
| Basic weighted average shares outstanding  | 14,213                         | 14,121 | 14,208                       | 14,106 |
| Dilutive effect of stock options and certain non-vested shares of restricted stock | 80                             | —      | 87                           | —      |
| Diluted weighted average shares outstanding  | 14,293                         | 14,121 | 14,295                       | 14,106 |

For the three and six month periods ended June 30, 2016, grants and options to purchase 350,000 and 430,000 shares of common stock respectively 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. For the three and six month periods ended June 30, 2016, options and restricted stock units of 79,167 and 87,387, respectively were excluded as their inclusion would be anti-dilutive, thereby decreasing the net loss per share. For the three and six month periods ended June 30, 2015, options to purchase 151,700 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. For the three and six month periods ended June 30, 2015, options and restricted stock units of 66,694 and 72,179, respectively were excluded as their inclusion would be anti-dilutive, thereby decreasing the net loss per share.

#### 5. Warranty Reserves

In most instances, the Company's digital products are covered by the original equipment manufacturing firm's warranty; however, there are certain customers where the Company may grant warranties in excess of the manufacturer's warranty for digital products which can be for up to three years. The Company accrues for these costs at the time of sale. The following table summarizes warranty activity for the three and six months ended June 30, 2016 and 2015:

| Three Months<br>Ended | Six Months<br>Ended |
|-----------------------|---------------------|
|-----------------------|---------------------|

|   | June 30,       |       | June 30, |       |
|---|----------------|-------|----------|-------|
|   | 2016           | 2015  | 2016     | 2015  |
|   | (in thousands) |       |          |       |
| Warranty accrual at beginning of period | \$314          | \$265 | \$310    | \$355 |
| Charged to expense                      | 191            | 236   | 348      | 359   |
| Amounts written off, net of recoveries  | (123)          | (238) | (281)    | (443) |
| Foreign currency adjustment             | (2 )           | 8     | 3        | —     |
| Warranty accrual at end of period       | \$380          | \$271 | \$380    | \$271 |

## 6. Intangible Assets

Intangible assets consisted of the following at June 30, 2016:

|  | Useful life | Gross           | Accumulated  | Net   |
|--|-------------|-----------------|--------------|-------|
|  | (Years)     | ( in thousands) | amortization |       |
| Intangible assets subject to amortization: |             |                 |              |       |
| Software                                   | 3           | \$307           | \$ —         | \$307 |
| Product Formulation                        | 10          | 472             | (253 )       | 219   |
| Total                                      |             | \$779           | \$ (253 )    | \$526 |

Intangible assets consisted of the following at December 31, 2015:

|  | Useful life<br>(Years) | Gross<br>(in thousands) | Accumulated<br>amortization | Net   |
|--|------------------------|-------------------------|-----------------------------|-------|
| Intangible assets subject to amortization: |                        |                         |                             |       |
| Product formulation                        | 10                     | \$440                   | \$ (205 )                   | \$235 |

Amortization expense relating to other identifiable intangible assets was insignificant for the six months ended June 30, 2016 and \$0.2 million for the six months ended June 30, 2015.

The following table shows the Company's estimated future amortization expense related to intangible assets for the next five years.

|                | Amount<br>(in<br>thousands) |
|----------------|-----------------------------|
| Remainder 2016 | \$ 33                       |
| 2017           | 54                          |
| 2018           | 44                          |
| 2019           | 31                          |
| 2020           | 23                          |
| Thereafter     | 34                          |

## 7. Goodwill

The following represents a summary of changes in the Company's carrying amount of goodwill for the quarter ended June 30, 2016 (in thousands):

|                                 |       |
|---------------------------------|-------|
| Balance as of December 31, 2015 | \$863 |
| Foreign currency translation    | 61    |
| Balance as of March 31, 2016    | \$924 |

## 8. Restructuring Activities

In connection with its strategic planning process, as well as the Company's ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the second quarter of 2015 to reduce headcount and more efficiently utilize real estate assets. These plans were completed in the first quarter of 2016 and no expense was recorded in 2016.

In connection with the integration of the 2013 CMS acquisition, as well as the Company's ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the fourth quarter of 2013 to reduce headcount and move the Company's warehouse from Omaha, Nebraska to Georgia. The restructuring initiative was completed in the first quarter of 2015.

The following table reconciles the beginning and ending restructuring balance for the six months ended June 30, 2016, which is included in accrued expenses:

|  |                   |
|--|-------------------|
|  | (in<br>thousands) |
| Accrued liability at beginning of period | \$ 73             |
| Severance paid                           | (73 )             |
| Accrued liability at end of period       | \$ —              |

The following table reconciles the beginning and ending restructuring balance for the six months ended June 30, 2015, which is included in accrued expenses:

|  | 2015<br>Strategic<br>Initiative | 2013<br>Convergent<br>Related<br>Severance | Total<br>Restructuring |
|--|---------------------------------|--|------------------------|
|  | (in thousands)                  |  |                        |
| Accrued liability at beginning of period | \$-                             | \$ 187                                     | \$ 187                 |
| Lease termination expense                | 313                             | -  | 313                    |
| Severance expense                        | 695                             | -  | 695                    |
| Severance paid                           | (302)                           | (129)                                      | (431)                  |
| Accrued liability at end of period       | \$706                           | \$ 58                                      | \$ 764                 |

## 9. 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 of \$8.8 million should be recorded against the Company's U.S. tax jurisdiction deferred tax assets as of June 30, 2016. During the second quarter the valuation allowance decreased \$0.5 million.

The Company currently has an exam initiated for Federal purposes for the 2011 fiscal year. The Company has examinations not yet initiated for Federal purposes for fiscal years 2012, 2013, 2014, and 2015. In most cases, the Company has examinations open for state or local jurisdictions based on the particular jurisdiction's statute of limitations.

## 10. Stock Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values. Share-based compensation expense included in selling and administrative



expenses approximated \$0.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively.

### ***Long-Term Incentive Plan***

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") 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, and performance units. 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 reserved for issuance under the 2010 Plan is 1,600,000 shares. During the three months ended June 30, 2016, the Company granted no restricted stock units or stock options and during the six months ended June 30, 2016, the Company granted no restricted stock units and 100,000 stock options under the 2010 Plan.

### ***Options***

As noted above, under the 2010 Plan, the Company granted options to purchase 100,000 shares during the six month period ended June 30, 2016. 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 and vest immediately or over a five-year period.

The weighted average grant date fair value of stock options granted during the six month period ended June 30, 2016 was \$4.20. There were no stock options granted during the three month period ended June 30, 2016 or during the three and six month period ended June 30, 2015. The fair value of each stock option granted is estimated on the date of grant using a Black-Scholes valuation model with the following weighted average assumptions:

|  |         |
|--|---------|
|  | 2016    |
| Expected dividend yield at date of grant | 0.00 %  |
| Risk-free interest rate                  | 1.35 %  |
| Expected stock price volatility          | 32.26 % |
| Expected life of options (in years)      | 5.7     |

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was based on historical daily price changes of the Company's stock for one year 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 Company considers groups of associates that have similar historical exercise behavior separately for valuation purposes.

The following table summarizes the Company's activities with respect to its stock options for the six months ended June 30, 2016 as follows:

|                                  | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value (in<br>thousands) |
|----------------------------------|-------------------------|---|---|---|
| Outstanding at December 31, 2015 | 450,800                 | \$ 4.48   | 9.21  | \$ 131  |
| Granted                          | 100,000                 | 4.20  |   |   |
| Exercised                        | (15,000 )               | 3.55  |   |   |
| Forfeited                        | (22,500 )               | 4.70  |   |   |
| Outstanding at June 30, 2016     | 513,300                 | \$ 4.33   | 9.16  | \$ 464  |
| Exercisable at June 30, 2016     | 83,300                  | \$ 4.44   | 7.98  | \$ 66   |

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 June 30, 2016.

As of June 30, 2016, 430,000 stock option awards were non-vested. Unrecognized compensation cost related to stock option awards was approximately \$0.6 million, which is expected to be recognized over a weighted average period of 4.5 years.

### ***Restricted Stock Plans***

The Ballantyne Strong, Inc. 2014 Non-Employee Directors' Restricted Stock Plan (the "2014 Non-Employee Plan") provides for the award of restricted shares to outside directors. Shares issued under the 2014 Non-Employee Plan vest the day preceding the Company's Annual Meeting of Stockholders in the year following issuance. During the six months ended June 30, 2016, the Company granted 45,555 restricted shares with a weighted average grant date fair value of \$4.89 under the Non-Employee Plan.

In connection with the restricted stock granted to certain employees and non-employee directors, the Company accrues compensation expense based on the estimated number of shares expected to be issued utilizing the most current information available to the Company at the date of the financial statements. 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 June 30, 2016, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately \$0.4 million, which is expected to be recognized over a weighted average period of 1.3 years.

The following table summarizes restricted stock activity for the six months ended June 30, 2016:

|                                 | Number of<br>Restricted<br>Stock<br>Shares | Weighted<br>Average<br>Grant<br>Price<br>Fair<br>Value |
|---------------------------------|--|--|
| Non-vested at December 31, 2015 | 130,358                                    | \$ 4.30  |
| Granted                         | 45,555                                     | 4.89   |
| Shares vested                   | (61,368 )                                  | 4.49   |
| Shares forfeited                | (5,625 )                                   | 3.75   |
| Non-vested at June 30, 2016     | 108,920                                    | \$ 4.47  |

## 11. Commitments, Contingencies and Concentrations

### *Concentrations*

The Company's top ten customers accounted for approximately 55.4% and 48.0% of total consolidated net revenues for the three and six months ended June 30, 2016, respectively. Trade accounts receivable from these customers represented approximately 44.0% of net consolidated receivables at June 30, 2016. 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 concentration 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 2023. 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 June 30, 2016 are as follows:

|                | Capital<br>Leases | Operating<br>Leases |
|----------------|-------------------|---------------------|
|                | (In thousands)    |                     |
| Remainder 2016 | \$ 164            | \$ 289              |
| 2017           | 290               | 462                 |
| 2018           | 248               | 408                 |
| 2019           | 131               | 375                 |
| 2020           | —                 | 353                 |

|   |     |          |
|---|-----|----------|
| Thereafter  | —   | 636      |
| Total minimum lease payments                      | 833 | \$ 2,523 |
| Less: Amount representing interest                | 33  |          |
| Present value of minimum lease payments           | 800 |          |
| Less: Current maturities                          | 314 |          |
| Capital lease obligations, net of current portion |     | \$486    |

### 13. Business Segment Information

As of June 30, 2016 the Company's operations were conducted principally through two business segments: Cinema and Digital Media. Cinema operations include the sale of digital projection equipment, screens, and sound systems. Digital Media operations include the delivery of end to end digital signage solutions, video communication solutions, content creation and management and service of digital signage and digital cinema equipment. The Company allocates resources to business segments and evaluates the performance of these segments based upon reported segment operating profit. The Company records intercompany sales at cost and has eliminated all significant intercompany sales in consolidation. The results of discontinued operations are excluded from the Cinema segment information below.

**Summary by Business Segments**

| (In thousands)  | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | June 30, 2016      | 2015       | June 30, 2016    | 2015       |
| Net revenue   |                    |            |                  |            |
| Cinema  | \$11,288           | \$10,301   | \$21,015         | \$22,733   |
| Digital Media   | 9,753              | 7,798      | 17,499           | 14,844     |
| Total segment net revenue   | 21,041             | 18,099     | 38,514           | 37,577     |
| Eliminations  | (483 )             | (268 )     | (842 )           | (596 )     |
| Total net revenue   | \$20,558           | \$17,831   | \$37,672         | \$36,981   |
| Operating income (Loss)   |                    |            |                  |            |
| Cinema  | \$3,066            | \$1,159    | \$6,113          | \$3,271    |
| Digital Media   | 831                | (120 )     | 945              | (598 )     |
| Total segment operating income  | 3,897              | 1,039      | 7,058            | 2,673      |
| Unallocated general and administrative expenses                         | (1,934 )           | (2,773 )   | (3,983 )         | (5,310 )   |
| (Loss) gain on sale of assets   | —                  | (381 )     | 1                | (378 )     |
| Other income (expense)  |                    |            |                  |            |
| Interest, net   | —                  | 152        | —                | 300        |
| Cinema – foreign currency transaction (loss) gain                       | (154 )             | (73 )      | (1,039 )         | 675        |
| Digital Media – foreign currency transaction (loss) gain                | (26 )              | (8 )       | 34               | (119 )     |
| Cinema - excess distribution from joint venture                         | 502                | —          | 502              | —          |
| Cinema  | 9                  | 19         | 50               | 26         |
| Digital Media   | (3 )               | (2 )       | (7 )             | (2 )       |
| Change in value of marketable securities – Corporate asset              | 116                | —          | (366 )           | —          |
| Total other income (loss)   | 444                | 88         | (826 )           | 880        |
| Earnings (loss) before income taxes and equity method investment income | \$2,407            | \$(2,027 ) | \$2,250          | \$(2,135 ) |

| (In thousands)                                      | June 30, 2016 | December 31, 2015 |
|---|---------------|-------------------|
| Identifiable assets, excluding assets held for sale |               |                   |
| Cinema  | \$35,424      | \$38,159          |
| Digital Media                                       | 17,330        | 15,319            |
| Corporate assets                                    | 9,578         | 6,102             |
| Total   | \$62,332      | \$59,580          |

**Summary by Geographical Area**

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| (In thousands)         | Three Months           |          | Six Months Ended |          |
|------------------------|------------------------|----------|------------------|----------|
|                        | Ended June 30,<br>2016 | 2015     | June 30,<br>2016 | 2015     |
| Net revenue            |                        |          |                  |          |
| United States          | \$16,309               | \$14,096 | \$29,541         | \$27,993 |
| China                  | 1,843                  | 871      | 2,798            | 1,667    |
| Latin America          | 593                    | 509      | 975              | 2,445    |
| Canada                 | 1,172                  | 1,129    | 2,277            | 2,379    |
| Mexico                 | 447                    | 797      | 1,344            | 1,379    |
| Europe                 | 119                    | 173      | 592              | 771      |
| Asia (excluding China) | 17                     | 20       | 25               | 45       |
| Other                  | 58                     | 236      | 120              | 302      |
| Total                  | \$20,558               | \$17,831 | \$37,672         | \$36,981 |

| (In thousands)                                      | June 30,<br>2016 | December<br>31, 2015 |
|---|------------------|----------------------|
| Identifiable assets, excluding assets held for sale |                  |                      |
| United States                                       | \$32,955         | \$33,882             |
| Canada  | 29,377           | 25,698               |
| Total   | \$62,332         | \$59,580             |

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

***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 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, 2015 and the following risks and uncertainties: the Company's ability to expand its revenue streams to compensate for the lower demand for its digital cinema products and installation services, 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 investment strategy, the Company's ability to retain or replace its significant customers, the impact of 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 the new executives, acquisition-related risks, 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 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. There was no impact on current or prior years to the individual components of these segments. The Cinema segment provides a full range of products and services to the theatre exhibition industry from the design and installation of new theatre exhibition systems and related equipment to complete film-to-digital theatre conversion services. The systems include a wide spectrum of premier audio-visual products and accessories such as: digital projectors, state of the art projection screens, servers and 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 cinema. These markets are served through the capabilities the Company has from our Convergent and Strong Technical Services (“STS”) businesses, respectively. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing solutions and services to our customers.

Our segments were determined based on the manner in which management organizes segments for making operating decisions and assessing performance. Approximately 56% of our revenues for the six months ended June 30, 2016 were from Cinema and approximately 44% were from Digital Media. Additional information related to our reporting segments can be found in the notes to the consolidated financial statements.

On June 21, 2016, the Company’s Board of Directors approved a plan under which the Company will pursue a sale of the operations conducted by its subsidiaries Strong Westrex (Beijing) Technology Inc. and Strong Westrex Inc. (the “China Operations”) which was historically included in the Cinema segment. We expect to complete the sale within the next twelve months. The purpose of the plan is to focus the efforts of the Company on the business units that have opportunities for higher return on invested capital. We reflected the results of the China Operations as discontinued operations for all periods presented.

**Results of Operations:****Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015****Revenues**

Net revenues during the three months ended June 30, 2016 increased 15.3% to \$20.6 million from \$17.8 million during the three months ended June 30, 2015.

|                        | Three Months<br>Ended<br>June 30,<br>2016      2015<br>(In thousands) |          |
|------------------------|---|----------|
| Cinema                 | \$11,288  | \$10,301 |
| Digital Media          | 9,753   | 7,798    |
| Total segment revenues | 21,041  | 18,099   |
| Eliminations           | (483 )  | (268 )   |
| Total net revenues     | \$20,558  | \$17,831 |

**Cinema**

Sales of cinema products and services increased 9.6% to \$11.3 million in the second quarter of 2016 from \$10.3 million in the second quarter of 2015. This increase was driven by a \$1.0 million increase in digital cinema products and services and a \$0.6 million increase in screen sales, offset by a \$0.6 million decrease in lighting and security sales as those businesses were exited in 2015.

**Digital Media**

Sales of digital media products and services increased 25.1% to \$9.8 million in the second quarter of 2016 from \$7.8 million in the second quarter of 2015. Sales of products and services related to cinema equipment maintenance and digital signage as well as content creation, management and distribution increased \$2.0 million.

## **Export Revenues**

Sales outside the United States (primarily from the cinema segment) increased to \$4.2 million in the second quarter of 2016 from \$3.7 million a year ago resulting primarily from increased sales in China and Latin America, offset by decreases sales in Mexico. 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**

Consolidated gross profit was \$6.1 million in the second quarter of 2016 and \$3.5 million in the second quarter of 2015, gross profit as a percent of revenue was 29.9% and 19.6% in the second quarter of 2016 and the second quarter of 2015, respectively. Gross profit in the cinema segment increased to \$3.7 million in the second quarter of 2016 from \$2.1 million in the second quarter of 2015 and increased as a percentage of sales to 32.4% in 2016 from 20.2% in 2015. The increase in gross margin was driven by write-offs of inventory in 2015.

The gross profit in the digital media segment increased to \$2.5 million or 25.5% as a percentage of revenues in the second quarter of 2016 from \$1.4 million or 18.2% as a percentage of revenues in the second quarter of 2015. The increase in gross margin was driven by more favorable absorption of our fixed operating costs as revenues increased compared to prior year.

## **Selling Expenses**

Selling expenses decreased 14.5% to \$1.1 million in the second quarter of 2016 compared to \$1.3 million a year-ago and as a percentage of revenues decreased to 5.6% from 7.5% a year-ago. The decrease in selling expenses was primarily due to decreased employee related costs.

### **Administrative Expenses**

Administrative expenses decreased 21.8% to \$3.0 million in the second quarter of 2016 from \$3.9 million in the second quarter of 2015 and as a percent of total revenue decreased to 14.8% in the second quarter of 2016 from 21.8% in the second quarter of 2015. The decrease in expenses is primarily due to lower compensation related costs resulting from our 2015 strategic restructuring.

### **Other Financial Items**

The second quarter of 2016 includes total other income of \$0.4 million primarily related to \$0.5 million of excess joint venture distributions recognized as income partially offset by \$0.2 million of net losses on foreign currency transactions. The second quarter of 2015 includes total other income of \$0.1 million primarily related to net interest income.

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.

As a result of the items outlined above, we generated net earnings from continuing operations of approximately \$1.8 million and basic and diluted earnings per share from continuing operations of \$0.12 in the second quarter of 2016 compared to net loss from continuing operations of (\$2.8) million and basic and diluted loss per share from continuing operations of (\$0.20) a year-ago, respectively.

### **Results of Discontinued Operations**

Our discontinued operations generated an after tax loss of (\$0.9) million and basic and diluted loss per share of (\$0.06) in the second quarter of 2016 compared to an after tax loss of (\$0.1) million and basic and diluted loss per share of (\$0.01) in the second quarter of 2015, respectively.

### **Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015**

**Revenues**

Net revenues during the six months ended June 30, 2016 increased 1.9% to \$37.7 million from \$37.0 million during the six months ended June 30, 2015.

|                        | Six Months Ended<br>June 30, |          |
|------------------------|------------------------------|----------|
|                        | 2016                         | 2015     |
|                        | (In thousands)               |          |
| Cinema                 | \$21,015                     | \$22,733 |
| Digital Media          | 17,499                       | 14,844   |
| Total segment revenues | 38,514                       | 37,577   |
| Eliminations           | (842 )                       | (596 )   |
| Total net revenues     | \$37,672                     | \$36,981 |

**Cinema**

Sales of cinema products and services decreased 7.6% to \$21.0 million in the first six months of 2016 from \$22.7 million in the first six months of 2015. This decrease was driven by a \$1.6 million decrease in digital cinema products and services and a \$1.0 million decrease in lighting and security sales as those businesses were exited in 2015. These decreases were offset by a \$1.0 million increase in screen sales.

**Digital Media**

Sales of digital media products and services increased 17.9% to \$17.5 million in the first six months of 2016 from \$14.8 million in the first six months of 2015. Sales of products and services related to cinema equipment maintenance and digital signage as well as content creation, management and distribution increased \$2.6 million.

**Export Revenues**

Sales outside the United States (primarily from the cinema segment) decreased to \$8.1 million in the first six months of 2016 from \$9.0 million in the first six months of 2015 resulting primarily from decreased sales in Latin America, Europe, and Canada, offset by increased sales in China. 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**

Consolidated gross profit was \$11.4 million in the first six months of 2016 and \$7.8 million in the first six months of 2015, gross profit as a percent of revenue was 30.2% and 21.0% in the first six months of 2016 and the first six months of 2015, respectively. Gross profit in the cinema segment increased to \$7.3 million in the first six months of 2016 from \$5.2 million in the first six month of 2015 and increased as a percentage of sales to 34.5% in 2016 from 22.9% in 2015. The increase in gross margin was driven by write-offs of inventory in 2015.

The gross profit in the digital media segment increased to \$4.1 million or 23.6% as a percentage of revenues in the first six months of 2016 from \$2.5 million or 17.1% as a percentage of revenues in the first six months of 2015. The increase in gross margin was driven by more favorable absorption of our fixed operating costs as revenues increased compared to prior year.

## **Selling Expenses**

Selling expenses decreased 25.9% to \$2.2 million in the first six months of 2016 compared to \$2.9 million a year-ago and as a percentage of revenues decreased to 5.8% from 7.9% a year-ago. The decrease in selling expenses was primarily due to decreased employee related costs.

## **Administrative Expenses**

Administrative expenses decreased 17.7% to \$6.1 million in the first six months of 2016 from \$7.5 million in the first six months of 2015 and as a percent of total revenue decreased to 16.3% in the first six months of 2016 from 20.2% in the first six months of 2015. The decrease in expenses is primarily due to lower compensation related costs resulting from our 2015 strategic restructuring.

## **Other Financial Items**

The first six months of 2016 includes total other expense of \$0.8 million primarily related to \$1.0 million of net losses on foreign currency transactions and \$0.4 million of decrease in market value of marketable securities, offset by \$0.5 million of excess joint venture distributions recognized as income. The first six months of 2015 includes total other income of \$0.9 million primarily related to \$0.6 million of net gains on foreign currency transactions and \$0.3 million

of net interest income.

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.

As a result of the items outlined above, we generated net earnings from continuing operations of approximately \$1.0 million and basic and diluted earnings per share from continuing operations of \$0.07 in the first six months of 2016 compared to net loss from continuing operations of (\$12.7) million and basic and diluted loss per share from continuing operations of (\$0.90) a year-ago, respectively.

### **Results of Discontinued Operations**

Our discontinued operations generated an after tax loss of (\$0.7) million and basic and diluted loss per share of (\$0.05) in the first six months of 2016 compared to an after tax loss of (\$0.3) million and basic and diluted loss per share of (\$0.03) in the first half of 2015, respectively.

### **Liquidity and Capital Resources**

During the past several years, we have met our working capital and capital resource needs from either our operating or investing cash flows or a combination of both. We ended the second quarter with total cash and cash equivalents of \$12.8 million compared to \$17.9 million at December 31, 2015. As of June 30, 2016, \$10.8 million of the \$12.8 million in cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to pay U.S. income taxes and foreign withholding taxes on a portion of these funds when repatriated back to the U.S.



*Cash Flows from Operating Activities*

Net cash used in operating activities from continuing operations was \$1.4 million in the first six months of 2016, which included net income from continuing operations of \$1.0 million, offset by non-cash charges (benefits) of deferred tax expense, depreciation and amortization, reserve provisions, change in value of marketable securities and non-cash stock compensation totaling \$1.7 million. Changes in working capital decreased cash from operating activities of continuing operations by \$4.1 million, primarily due to an increase in accounts receivable and a decrease in current income taxes payable, offset by an increase in accounts payable. Accounts payable increased by \$1.4 million primarily due to timing of payments on equipment orders at the end of the quarter. Current income taxes payable decreased \$1.6 million primarily due to payments for Canadian income taxes.

Net cash provided by operating activities was \$2.2 million in the first six months of 2015, which included a net loss from continuing operations of \$12.7 million, offset by non-cash charges (benefits) of deferred tax expense, depreciation and amortization, reserve provisions and non-cash stock compensation totaling \$11.8 million. Changes in working capital benefitted cash from operating activities of continuing operations of \$3.2 million, primarily due to decrease in accounts receivable, partially offset by a decrease in accounts payable. Accounts receivable balances decreased \$6.7 million due to decreased sales in the first six months of 2015 compared to the last six months of 2014. Accounts payable balances decreased \$2.5 million due to payments made to vendors during the first six months of 2015 for purchases made to fulfill orders during the fourth quarter of 2014.

Net cash used in operating activities of discontinued operations was \$2.7 million in the first six months of 2016 compared to net cash provided by operating activities of discontinued operations of \$0.7 million in the first six months of 2015.

*Cash Flows from Investing Activities*

Net cash used in investing activities amounted to \$4.3 million in the first six months of 2016 due to \$3.8 million in purchases of equity securities and \$0.7 million for capital expenditures. Net cash used in investing activities amounted to \$0.2 million in the first six months of 2015 and was primarily for capital expenditures.

*Cash Flows from Financing Activities*

Net cash used in financing activities in the first six months of 2016 was \$0.2 million and primarily for purchase of treasury stock and payment on capital leases. Cash flows from financing activities were minimal in the first six

months of 2015.

The effect of changes in foreign exchange rates from continuing operations increased (decreased) cash and cash equivalents by \$0.9 million and (\$0.5) million in the first six months of 2016 and 2015, respectively.

The effect of changes in foreign exchange rates from discontinued operations was minimal in in the first six months of 2016 and 2015.

### Hedging and Trading Activities

Our primary exposure to foreign currency fluctuations pertains to our subsidiaries in Canada and China. In certain instances, the Company 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.

### Off Balance Sheet Arrangements and Contractual Obligations

The future estimated payments under these arrangements are summarized below along with our other contractual obligations:

| Contractual Obligations      | Total   | Remaining<br>in 2016 | One to<br>Three<br>Years | Three<br>to<br>Five<br>Years | Thereafter |
|------------------------------|---------|----------------------|--------------------------|------------------------------|------------|
| Postretirement benefits      | \$125   | \$ 18                | \$30                     | \$ 21                        | \$ 56      |
| Capital leases               | 833     | 164                  | 538                      | 131                          | —          |
| Operating leases             | 2,523   | 289                  | 870                      | 728                          | 636        |
| Contractual cash obligations | \$3,481 | \$ 471               | \$1,438                  | \$ 880                       | \$ 692     |

There were no other material contractual obligations other than inventory and property, plant and equipment purchases in the ordinary course of business.

## **Seasonality**

Generally, our quarterly 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 three months and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for an entire fiscal year.

## **Litigation**

From time to time we may be involved in various claims and legal actions which are routine litigation matters incidental to the business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on our financial condition, results of operations or liquidity.

## **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, 2015. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. There were no significant changes in our critical accounting policies during the six months

ended June 30, 2016.

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

The principal market risks affecting us are exposure to interest rates and foreign currency exchange rates. We market our products throughout the United States and the world. As a result, we could be adversely affected by such factors as changes in foreign currency rates and weak economic conditions. As a majority of our sales are currently denominated in U.S. dollars, a strengthening of the dollar can and sometimes has made our products less competitive in foreign markets.

**Interest Rates**—Interest rate risks from our interest related accounts such as our postretirement obligations are not deemed significant. We currently have long-term notes receivables bearing interest rates of 15% which are recorded at fair value. A change in long-term interest rates for comparable types of instruments would have the effect of us recording changes in fair value through our statement of operations.

**Foreign Exchange**—Exposures to transactions denominated in currencies other than the entity's functional currency are primarily related to our China and Canadian subsidiaries. Fluctuations in the value of foreign currencies create exposures, which can adversely affect our results of operations. From time to time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with forecasted transactions. A portion of our cash in the China and Canadian subsidiaries is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately \$0.9 million.

**Equity Price Risk**—We are exposed to equity price risk related to certain of our investments in equity securities. At June 30, 2016, our equity securities aggregated \$9.6 million, of which \$1.8 million represented marketable securities that are reported at fair value, and \$7.8 million accounted for using the equity-method. A change in the equity price of the marketable securities or equity method investments would result in a change in the fair value or economic value, respectively, of such securities.

***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 for the period 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, 2015 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). Repurchases during the quarter ended June 30, 2016 are reflected in the following table.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period                   | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares (or<br>approximate<br>dollar value)<br>that May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|--------------------------|---|---------------------------------------|---|--|
| April 1 — April 30, 2016 | 10,250                                    | \$ 4.68                               | 10,250  | 677,750  |
| May 1 — May 31, 2016     | 10,300                                    | \$ 4.68                               | 10,300  | 667,450  |
| June 1 — June 30, 2016   | 1,200                                     | \$ 5.18                               | 1,200   | 666,250  |
| Total                    | 21,750                                    |                                       | 21,750  |  |

***Item 6. Exhibits***

See the Exhibit Index.

**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/ Nathan D. Legband*

Nathan D. Legband,  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting  
Officer)

Date: August 4, 2016 Date: August 4, 2016

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>   | <b>Incorporated by<br/>Reference</b> |                | <b>Filing<br/>Date</b> | <b>Filed<br/>Herewith</b> |
|---------------------------|---|--------------------------------------|----------------|------------------------|---------------------------|
|                           |   | <b>Form</b>                          | <b>Exhibit</b> |                        |                           |
| 31.1                      | Rule 13a-14(a) Certification of Chief Executive Officer   |                                      |                |                        | X                         |
| 31.2                      | Rule 13a-14(a) Certification of Chief Financial Officer   |                                      |                |                        | X                         |
| 32.1                      | * 18 U.S.C. Section 1350 Certification of Chief Executive Officer   |                                      |                |                        | X                         |
| 32.2                      | * 18 U.S.C. Section 1350 Certification of Chief Financial Officer   |                                      |                |                        | X                         |
| 101                       | The following materials from Ballantyne Strong's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, 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 Income (Loss), (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |                                      |                |                        | X                         |

\* Furnished herewith.



