

BALLANTYNE STRONG, INC.  
Form 10-K  
March 12, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 1-13906**

**Ballantyne Strong, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

**47-0587703**

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

**11422 Miracle Hills Drive, Suite 300**  
**Omaha, Nebraska 68154**  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(402) 453-4444**

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

Title of each class	Name of exchange on which registered
Common Stock, \$0.01 par value	NYSE American

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

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

The aggregate market value of the Company’s voting common stock held by non-affiliates, based upon the closing price of the stock on the NYSE American on June 29, 2018 was \$47,900,215. The Company does not have any non-voting common equity. As of March 1, 2019, 14,492,090 shares of common stock of Ballantyne Strong, Inc., were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company’s Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	16
Item 2. <u>Properties</u>	16
Item 3. <u>Legal Proceedings</u>	17
Item 4. <u>Mine Safety Disclosures</u>	17
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6. <u>Selected Financial Data</u>	17
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	24
Item 8. <u>Financial Statements and Supplementary Data</u>	25
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	60
Item 9A. <u>Controls and Procedures</u>	60
Item 9B. <u>Other Information</u>	60
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	60
Item 11. <u>Executive Compensation</u>	61
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	61
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	61
Item 14. <u>Principal Accounting Fees and Services</u>	61
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	62
Item 16. <u>Form 10-K Summary</u>	65
<u>Signatures</u>	66

## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, forward-looking statements may be made in press releases, orally, at conferences, on the Company's website, or otherwise, by or on behalf of the Company. Statements that are not historical are forward-looking and reflect expectations for future Company performance. These statements often use words such as "anticipates," "targets," "expects," "hopes," "estimates," "intends," "plans," "goal," "believes," "continue" and other expressions or future or conditional verbs such as "will," "may," "might," "should," "would" and "could." These statements involve certain known and unknown risks, uncertainties and assumptions that are difficult to predict and are often beyond the Company's control. 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.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties more fully discussed elsewhere in this report, including under Item 1A. Risk Factors of this Annual Report on Form 10-K and in any of the Company's subsequent Securities and Exchange Commission filings for further information about factors that could affect such forward-looking statements: the Company's ability to expand its revenue streams, potential interruptions of supplier relationships or higher prices charged by suppliers, the Company's ability to successfully compete and introduce enhancements and new features that achieve market acceptance and that keep pace with technological developments, the Company's ability to successfully execute its capital allocation strategy, the Company's ability to maintain its brand and reputation and retain or replace its significant customers, the impact of a challenging global economic environment or a downturn in the markets, economic and political risks of selling products in foreign countries, risks of non-compliance with U.S. and foreign laws and regulations, potential sales tax collection obligations and claims for uncollected amounts, cybersecurity risks and risks of damage and interruptions of information technology systems, the Company's ability to retain key members of management and successfully integrate new executives, the Company's ability to complete acquisitions, strategic investments, entry into new lines of business, divestitures, mergers or other transactions on acceptable terms or at all, the Company's ability to utilize or 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 statements 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 the forward-looking statements. Except as 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.

**PART I**

*Item 1. Business*

**General Description of Business**

Ballantyne Strong, Inc. (“Ballantyne” or the “Company”), a Delaware corporation established in 1932, is a holding company with the following wholly owned subsidiaries: Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc. (“Strong/MDI”), Convergent Media Systems Corporation (“Convergent”), Strong Digital Media, LLC and StrongVest Global Advisors, LLC. Ballantyne went public in 1995; our shares are traded on the NYSE American market under the symbol “BTN.” Our website is [www.ballantynestrong.com](http://www.ballantynestrong.com).

The Company conducts its operations through three operating segments: Strong Cinema, Convergent and Strong Outdoor. During the fourth quarter of 2018, we separated our former Digital Media segment into two separate segments - Convergent and Strong Outdoor. All prior periods have been recast in our segment reporting to reflect the current segment organization.

The Company's strategic plan contemplates a combination of:

Investing in the operations and growth of our existing businesses;

Evaluating opportunities to maximize value by monetizing investments in our existing businesses; and

Investing in public companies, private companies or other areas.

These investments may involve investments in other public companies or acquisitions of businesses, which may be within or outside of the Company's existing markets. We intend our investments in public companies to be made in circumstances where we believe that we will be able to exercise significant influence or control. The Company may also seek to sell a minority, majority or all of its existing businesses as part of its holding company strategy.

The Company holds investments in two public companies: approximately 17.3% of 1347 Property Insurance Holdings, Inc. (Nasdaq: PIH), a provider of property and casualty insurance in the States of Louisiana, Texas and Florida and 32.3% of Itasca Capital Ltd. (TSX Venture: ICL), a holding company that holds a significant position in Limbach Holdings, Inc. (Nasdaq: LMB), a leading commercial provider of HVAC construction and related services.

Fundamental Global Investors, LLC, the funds that it manages, its other affiliates, and the directors and officers of the Company and their affiliates together currently hold approximately 36.1% of the Company's outstanding stock. In some cases, funds managed by Fundamental Global Investors, LLC may acquire positions in the same public companies as the Company. Fundamental Global Investors' funds currently hold positions in 1347 Property Insurance Holdings, Inc. and Itasca Capital Ltd.

## **Operating Segments**

### ***Strong Cinema***

Overview

We provide high quality projection screens, technical support services and other related products to the cinema exhibition industry. We also distribute and support third party products including digital projectors, servers, library management systems, menu boards and sound systems.

Products

*Cinema Screens and Support Systems* — We are the largest supplier of premium projection screens to the cinema industry in North America. We have an exclusive relationship to supply large format screens to IMAX theaters and supply most of the other major cinema operators worldwide. We also manufacture innovative screen support structures custom built to adapt to virtually any venue requirement, with a unique self-standing modular construction that allows for easy assembly and adjustable size.

In addition, we manufacture and distribute screens outside of the cinema industry for special events and theme parks. Our Eclipse curvilinear screens are designed to provide maximum viewer engagement in media-based attractions and immersive projection environments. The solid surface minimizes light loss to maintain higher resolution at lower lumen output. Patented speaker panels allow selective placement of rear mounted speakers to ensure the audio derives from the source media on screen. Applications include interactive dark rides, 3D/4D theme park rides, flying theaters and motion simulators.

We believe that our screens are the highest quality in the industry, driven by our innovative manufacturing process, focus on quality control and our proprietary coatings. We believe we are the only major screen manufacturer that develops and produces its own proprietary coatings, which are critical to the overall quality, increased screen reflectivity and brightness and continued innovation of our screens.



*Technical Services* – We provide digital cinema equipment installations and after-sale maintenance and network support services to the cinema industry. Our field service technicians and our Network Operations Center (“NOC”) staff work hand in hand to resolve system and other issues for our cinema customers. We service our customers under recurring revenue contracts providing for maintenance and repair to a wide range of installed digital equipment, providing our customers with a reliable turnkey outsourced service option. We also provide services to our customers not covered by maintenance contracts on a time and materials basis. Our NOC, staffed by software engineers and systems techs, operates 24/7/365 and monitors our customers’ networked equipment remotely, often providing proactive solutions to systems issues before they cause system failures.

*Other Products* – We distribute projectors, servers, audio systems and other third-party products including library management systems, lenses and lamps to our cinema customers in North and South America.

### Markets

We sell our screen systems worldwide, with our primary markets being North America and Asia. Screen systems are primarily sold on a direct basis, although we also use third-party distributors and integrators in some markets.

We have non-exclusive distribution agreements with NEC and Barco that allow us to market digital projectors in North and South America.

We provide technical services in the United States. We market and sell our services directly to theater owners and through dealers or Value Added Reseller (“VAR”) networks.

### Competition

While there are numerous smaller screen manufacturing companies, the primary competitor in the worldwide cinema screen market is Harkness Screens. Competitive factors include product performance characteristics, quality, availability, location and price.

The markets for other Strong Cinema products and services are highly competitive and the industry is fragmented. The primary competitive factors are price, product quality, features and customer support. Competition in the digital cinema equipment market includes other integrators and resellers. Manufacturers may also sell equipment directly to

cinema exhibitors, especially for large orders. Our primary competition for installation, after-sale maintenance, and NOC services is Christie Digital, as well as smaller suppliers and in some cases internal resources of cinema exhibitors.

### *Convergent*

#### Overview

Convergent delivers digital signage solutions and services to various enterprise markets, including retail, banking and healthcare, as well as certain government agencies and Digital-Out-Of-Home (“DOOH”) advertising network operators. These markets are served through the capabilities that we developed from the acquisition of Convergent in 2013. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing integrated, fully-managed solutions to our customers. We market these solutions as “Digital Signage as a Service” (DSaaS) because they provide an end-to-end solution that includes hardware, software, content development and distribution, network monitoring, support and field maintenance services, all for a single monthly fee. Our “as-a-service” model lowers up-front customer capital costs, allows customers to scale more easily and allows them to ‘turn on’ or ‘turn off’ features as needed.

### Interactive Solutions

*IMPACT* – This consumer-facing digital signage solution enables retailers, banks and healthcare providers to promote their products and services and thereby improve the consumer experience, enhance their brand and positively impact sales. It supports single and multi-screen video walls, large-scale LED displays and storefront window displays. Optional services include touchscreens with interactive applications to get information about merchandise (“Lift & Learn”) and enable searching and ordering merchandise that’s not available in the store (“Endless Aisle”). It also includes access to a web portal that enables customers to view the availability of their digital signage network and the content being played at any time.

*INSPIRE* – This employee-facing digital signage solution enables enterprise businesses and government organizations to more effectively communicate with their employees to improve productivity by reinforcing training and delivering motivational messaging, and reduce operational costs through greater compliance and reduced employee turnover. It supports regular displays and touchscreens, typically situated in retail storage rooms, lunchrooms, distribution centers, factories, call centers and sales offices. Optional services include syndicated feeds for news, weather, traffic, and wellness information; social media feeds (e.g., Twitter, Instagram); custom designed motion graphic videos that are fed from a web form or other data source; and data visualization templates that display information from a customer database or application. This service also supports live-streaming of town hall meetings, storage and playback of videos (“Video-on-Demand”), and the ability to programmatically switch from the digital signage content to regular TV content from the customer’s cable or satellite TV set-top box. It also includes access to a web portal that enables customers to view the availability of their digital signage network and the content being played at any time.

*INFLUENCE* – This digital signage solution is designed specifically for Digital Out of Home (DOOH) ad network operators. It enables these companies to efficiently and cost-effectively distribute advertising to digital billboard and long-form video content to TVs in bars/restaurants and waiting rooms. Key features included peer-to-peer sharing of content to minimize internet bandwidth consumption for large video files, audience-analytics using a camera to measure viewer demographics and dwell time, and proof-of-play reporting. It also supports role-based access to a portal that enables advertisers to upload and schedule playback of their content in the specific time-slots that have been assigned to them by the customer, and view the availability of their digital signage network at any time.

### Products and Services

*Digital Signage as a Service (DSaaS) Platform* – Our platform leverages internally developed and third-party software to automate the customer’s digital signage workflow, including from content creation, approval, storage and management, network deployment, monitoring, case management and incident resolution. Since it is cloud-based, it provides inherent scalability to enable customers to expand their network. The DSaaS platform supports a wide range of applications – all of which are managed through a web portal. New features and functionality are frequently added, both through the efforts of our in-house software development team and integration with an ever-growing ecosystem

of third-party applications. We primarily use media players from BrightSign, LLC in our DSaaS offerings. Our DSaaS offerings provide the Company with recurring revenue.

*Content Creation* – We provide creative services to digital signage clients that include media strategy, content design and production. Our creative services team develops custom content to support the branding and marketing initiatives of each client.

*Content Management and Distribution* – Content management is provided to ensure accurate playback at the right place and at the right time based on a number of factors such as geography, site characteristics, location within a site or consumer demographics. We utilize our DSaaS platform for the management and distribution of content. Content is prepared, scheduled and centrally distributed from our cloud infrastructure.

*Network Operations Center* – Our NOC in Alpharetta, GA provides similar services to our Convergent customers as described under *Strong Cinema* above.

*Installation and Maintenance* – We provide digital signage installations and post-sale onsite maintenance services. Field technicians work closely with our NOC staff to resolve systems issues that cannot be fixed remotely. Each is certified to install and service a wide array of digital signage and audio equipment from a number of manufacturers. We offer cabling, wiring, installation and maintenance services in combination with the above digital signage solutions. We also offer long-term contractual service packages for installation, support and maintenance of satellite networks. The latter service stems from Convergent’s history of building satellite-based broadcast TV networks for corporations and government agencies, which they use primarily for training and town hall meetings.

*Measurement and Analytics* – We offer the tools and resources to measure the impact of digital signage solutions. We develop measurement criteria, establish benchmarks and identify control mechanisms to test the effectiveness of such solutions during proof of concept and full rollout scenarios.

### Markets

*Digital Signage* – The digital signage market broadly defined includes all uses of digital display technologies and services to project promotional and informative content in the form of images, graphics, design collaterals, videos and creative advertising on digital displays. However, the Company is focused on certain segments of the market that use digital signage to (a) attract consumers into retail stores, banks and restaurants and attempt to influence their purchase decisions, and (b) engage employees with salient corporate messaging intended to positively influence their behavior. The primary sectors for these services include retail, hospitality, banking, healthcare, manufacturing and distribution.

*Digital Out-of-Home* – The DOOH advertising market is a subset of the overall out-of-home advertising market that includes in-store digital displays and interactive promotion kiosks. DOOH marketing campaigns consist of a network of digital displays that are centrally managed and target both mobile and captive customers outside the home. Some definitions of the DOOH market include digital signage used by companies to promote their goods and services. However, in this context, we define it as digital signage that is used for advertising any goods and services. We are primarily focused on pursuing DOOH communication opportunities within the hospitality and transportation markets.

*Enterprise Video* – The Enterprise Video market consists of organizations seeking to use video communications for employee training and town hall meetings. We are primarily focused on pursuing Enterprise Video opportunities within the government, banking, retail and corporate markets.

### Competition

There are many players in our markets who have expertise in integration. Some of the key players include Diversified Media Group and Stratacache.

### *Strong Outdoor*

### Overview

We provide advertising services and experiential marketing services through Strong Outdoor. We started the business in early 2018 and provide out-of-home advertising services on over 3,500 taxicabs in New York City. We established Strong Digital Media, LLC as the legal entity to conduct this business. We sell advertising to corporate media buyers and advertising agencies for display on vinyl printed signs and digital signs.

In 2019, we are expanding Strong Outdoor to include experiential marketing services and may expand Strong Outdoor's services in other markets outside of New York City.

*Products and Services*

*Digital Taxi Top Advertising* – We operate 300 full-motion 45” double-sided digital displays. The displays are 10 times brighter than a typical HD television for high visibility day and night. Our content management software allows for geo-targeting of advertising to specific neighborhoods, retail areas and airports.

*Premium Taxi Top Advertising* – Our 16” by 54” premium taxi tops are the largest in the market and contain new illumination systems to provide the brightest static screens on the street.

*Traditional Taxi Top Advertising* – Our 14” by 48” panels are fully illuminated and provide millions of daily cost-effective advertising impressions for our customers.

*Experiential Marketing* – We are beginning expansion into experiential marketing, realizing the need for brands to not only reach consumers on a mass level but to create connections with consumers on a more personal level. We plan to do this by utilizing taxi assets and doing stagings and free rides, but also creating opportunities by building out locations. We also intend to create touch points for brands in vehicles that are not taxis, such as glass trucks, and utilize projection for brands to make huge impact around festivals such as CES, SXSW, Coachella, etc.

### Markets

Strong Outdoor currently operates only in the New York City taxicab market. We may consider expanding into other major metropolitan areas after attaining profitability in our initial market. Our customers include advertisers of feature films, television programs, Broadway shows and various consumer products and services.

### Competition

There are over 13,000 yellow taxicabs in the New York City market. Other media and taxicab service companies provide taxi-top advertising services for taxicabs not subject to our agreement. We also compete with other forms of out-of-home advertising.

### **Financial Instruments and Credit Risk Concentrations**

The Company’s top ten customers accounted for approximately 46% of 2018 consolidated net revenues. Trade accounts receivable from these customers represented approximately 45% of net consolidated receivables at December 31, 2018.

### **Manufacturing**

We manufacture cinema screens through Strong/MDI, our screen subsidiary in Joliette, Quebec, Canada. These manufacturing operations consist of an 83,000 square-foot facility for the manufacture of cinema screen systems. These facilities include expanded PVC welding operations with programmable automations, as well as two 90-foot high screen coating towers with state of the art precision coating application software and painting systems. This world class ISO certified operation has the capability of manufacturing multiple standard screens simultaneously to large format 2D and 3D screens for cinema and special venue applications.

### **Quality Control**

We believe that our quality control procedures and the quality standards for the products that we manufacture, distribute or service have contributed significantly to our reputation for high performance and reliability. The inspection of incoming materials and components as well as the testing of all of our products during various stages of the sales and service cycle are key elements of this program.

### **Trademarks**

We own or otherwise have rights to various trademarks and trade names used in conjunction with the sale of our products. We believe our success will not be dependent upon trademark protection, but rather upon our scientific and engineering capabilities and research and production techniques. We consider the following trademarks to be of value to our business: Strong® and Convergent™.

### **Employees**

We employed 294 persons at December 31, 2018, substantially all of which were full-time. Of these employees, 154 positions were considered manufacturing or operational, 75 were service related and 65 were considered sales and administrative. We are not a party to any collective bargaining agreement.



## **Regulation**

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, environmental, safety and health requirements; exports and imports; bribery and corruption; tax; data privacy; labor and employment; competition; and intellectual property ownership and infringement. Compliance with these laws, rules and regulations may be onerous and expensive, and if we fail to comply or if we become subject to enforcement activity, our ability to manufacture our products and operate our business could be restricted and we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

Some of these complex laws, rules and regulations – for example, those related to environmental, safety and health requirements – may particularly affect us in the jurisdictions in which we manufacture products, especially if such laws and regulations: require the use of abatement equipment beyond what we currently employ; require the addition or elimination of a raw material or process to or from our current manufacturing processes; or impose costs, fees or reporting requirements on the direct or indirect use of energy, or of materials or gases used or emitted into the environment, in connection with the manufacture of our products. There can be no assurance that in all instances a substitute for a prohibited raw material or process would be available, or be available at reasonable cost.

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

Our business and financial performance are subject to various risks and uncertainties, some of which are beyond our control. We discuss in this section some of the risk factors that, if they actually occurred, could materially and adversely affect our business, financial condition and results of operations. In that event, the trading price of our common stock could decline and you may lose part or all of your investment. You should consider these risk factors in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause our actual results and financial condition to differ materially from those projected in forward-looking statements. We undertake no obligation to revise or update any forward-looking statements contained herein to reflect subsequent events or circumstances or the occurrence of unanticipated events.

***If we are unable to expand our revenue streams to compensate for the lower demand for our digital cinema products and installation services, our business, financial condition and results of operations could be materially adversely affected.***

A significant portion of our revenue in recent years has been generated from the theater exhibition industry's need for digital cinema equipment and services to support the industry's transformation from film to digital equipment. This

transition required us to commit substantial resources to the process of retrofitting existing theater complexes by removing the film equipment and replacing it with digital equipment, and we experienced significant financial gains from this work. With the completion of this digital conversion by North America theater exhibitors, we are no longer able to rely on that income as a major source of our earnings. If we are unable to expand our revenue streams with other products and services, our future growth would be significantly curtailed.

***Interruptions of, or higher prices of, components from our suppliers may affect our results of operations and financial performance.***

A portion of our revenues are dependent on the distribution of products supplied by various key suppliers. If we fail to maintain satisfactory relationships with our suppliers, or if our suppliers experience significant financial difficulties, we could experience difficulty in obtaining needed goods and services. Some suppliers could also decide to reduce inventories or raise prices to increase cash flow. The loss of any one or more of our suppliers could have an adverse effect on our business, and we may be unable to secure alternative manufacturing arrangements. Even if we are able to obtain alternative manufacturing arrangements, such arrangements may not be on terms similar to our current arrangements or we may be forced to accept less favorable terms in order to secure a supplier as quickly as possible so as to minimize the impact on our business operations. In addition, any required changes in our suppliers could cause delays in our operations and increase our production costs and new suppliers may not be able to meet our production demands as to volume, quality or timeliness.

***The markets for our products and services are highly competitive and if market share is lost, we may be unable to lower our cost structure quickly enough to offset the loss of revenue.***

Within the Strong Cinema business, the domestic and international markets for our product lines are highly competitive, evolving and subject to rapid technological and other changes. Our Convergent and Strong Outdoor businesses, in particular, are highly dependent on technology. We expect the intensity of competition in each of these areas to continue in the future for a number of reasons including:

Certain of the competitors for our digital equipment have longer operating histories and greater financial, technical, marketing and other resources than we do, which, among other things, may permit them to adopt aggressive pricing policies. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues and our results of operations. Some of our competitors also have greater name and brand recognition and a larger customer base than us.

Some of our competitors are manufacturing their own digital equipment while we employ a distribution business model through our distribution agreements with NEC, Barco and certain other suppliers. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues.

Suppliers could decide to utilize their current sales force to supply their products directly to customers rather than utilizing channels.

In addition, we face competition for consumer attention from other forms of entertainment. The other forms of entertainment may be more attractive to consumers than those utilizing our technologies, which could harm our business, prospects and operating results.

For these and other reasons, we must continue to enhance our technologies and our existing products and services and introduce new high quality technologies, products and services to meet the wide variety of competitive pressures that we face. If we are unable to compete successfully, our business, prospects and results of operations will be materially adversely impacted.

***Our capital allocation strategy may not be successful, which could adversely impact our financial condition.***

We intend to continue investing part of our cash balances in public companies. We intend our investments in public companies to be made in circumstances where we believe that we will be able to exercise some degree of influence or control. Currently, our investments are highly concentrated in two public companies – 1347 Property Insurance Holdings, Inc. (Nasdaq: PIH) and Itasca Capital Ltd. (TSX Venture: ICL). In some cases, funds controlled by the Company's affiliate Fundamental Global Investors, LLC have, and may in the future, acquire positions in the same

public companies as the Company. We may also invest in private companies or other areas, including acquisitions of businesses. These types of investments are riskier than holding our cash balances as bank deposits or, for example, such conservative investments as treasury bonds or money market funds. There can be no assurance that we will be able to maintain or enhance the value or the performance of the companies in which we have invested or may invest in the future, or that we will achieve returns or benefits from these investments. Under certain circumstances, significant declines in the fair values of these investments may require the recognition of other-than-temporary impairment losses. We may lose all or part of our investment relating to such companies if their value decreases as a result of their financial performance or for any other reason. If our interests differ from those of other investors in companies over which we do not have control, we may be unable to effect any change at those companies. We are not required to meet any diversification standards, and our investments may continue to remain concentrated. In addition, we may seek to sell some or all of our existing businesses as part of our holding company strategy.

If our capital allocation strategy is not successful or we achieve less than expected returns from these investments, it could have a material adverse effect on us. The Board of Directors may also change our capital allocation strategy at any time, and such changes could further increase our exposure, which could adversely impact us.

***If we are not able to develop and introduce enhancements and new features that achieve market acceptance or that keep pace with technological developments, our business could be harmed.***

We operate in a dynamic environment characterized by rapidly changing technologies and industry and legal standards. Innovation is critical to our success. The introduction of new software solutions by our competitors, the market acceptance of solutions based on new or alternative technologies or the emergence of new industry standards could render our platform obsolete. Our ability to compete successfully, attract new customers and increase revenues from existing customers depends in part on our ability to enhance and improve our existing software platform and to identify new software partners, which would allow us to continually introduce or acquire new features that are in demand by the markets that we serve. The success of any enhancement or new solution depends on several factors, including timely completion and integration, adequate quality testing, introduction and market acceptance. Any new platform or feature that we develop or acquire may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to anticipate, or timely and successfully develop or acquire, new offerings or features, or enhance our existing platform to meet customer requirements, our business and operating results will be adversely affected. Additionally, for technologies that are acquired, we may not be able to successfully integrate or monetize the acquired technology at a rate that is consistent with the market's expectations, which could have a material adverse impact on us.

***If we are unable to maintain our brand and reputation, our business, results of operations and prospects could be materially harmed.***

Our business, results of operations and prospects depend, in part, on maintaining and strengthening our brand and reputation for providing high quality products and services. Reputational value is based in large part on perceptions. Although reputations may take decades to build, any negative incidents can quickly erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation. If problems with our products cause operational disruption or other difficulties, or there are delays or other issues with the delivery of our products or services, our brand and reputation could be diminished. Damage to our reputation could also arise from actual or perceived legal violations, product safety issues, data security breaches, actual or perceived poor employee relations, actual or perceived poor service, actual or perceived poor privacy practices, operational or sustainability issues, actual or perceived ethical issues or other events within or outside of our control that generate negative publicity with respect to us. Any event that has the potential to negatively impact our reputation could lead to lost sales, loss of new opportunities and retention and recruiting difficulties. If we fail to promote and maintain our brand and reputation successfully, our business, results of operations and prospects could be materially harmed.

***Our sales cycle can be long and unpredictable, particularly with respect to large enterprises, which could harm our business and operating results.***

The timing of our sales is difficult to predict. Our sales efforts involve educating our customers, frequently at an executive level, about the use, potential return on investment, technical capabilities, security and other benefits of our solution. Customers often undertake a prolonged product-evaluation process, which frequently involves not only our solutions but also those of our competitors. As we continue to target our sales efforts at large enterprise customers, we will face greater costs, long sales cycles and less predictability in completing some of our sales. In this market segment, the customer's decision to subscribe to our solution is often an enterprise-wide decision and may require us to provide even greater levels of education regarding the use and benefits of our solution and obtain support from multiple departments. In addition, prospective enterprise customers may require customized features and functions unique to their business process that may need acceptance testing related to those unique features. As a result of these factors, these sales opportunities may require us to devote greater sales support, operational support and professional services resources to individual customers, increasing costs and time required to complete sales and diverting our own sales and professional services resources to a smaller number of larger transactions. The long and unpredictable nature of our sales cycle could materially adversely impact our business and results of operations.

*We are substantially dependent upon significant customers who could cease purchasing our products at any time.*

The Company's top ten customers accounted for approximately 46% of 2018 consolidated net revenues. Trade accounts receivable from these customers represented approximately 45% of net consolidated receivables at December 31, 2018. Most arrangements with these customers 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 has deferred tax assets that are subject to annual valuation testing, which assets may not be realized, thus negatively impacting us.***

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. We consider 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, we concluded that we should maintain our valuation allowance against our U.S. deferred tax assets as of December 31, 2018. We face risks that our recorded deferred tax assets may not be realized, thus negatively impacting us.

***Our business is subject to the economic and political risks of selling products in foreign countries.***

Sales outside the United States (mainly Strong Cinema) continue to be significant, accounting for approximately 20% of consolidated sales in fiscal 2018. We expect that international sales will continue to be important to our business for the foreseeable future. Foreign sales are subject to general political and economic risks, including the recent actions by the U.S. federal government in its international trade and tariff policies, and any retaliatory measures that could be taken by foreign governments, which have created uncertainty regarding international trade, unanticipated or unfavorable circumstances arising from host country laws or regulations, unfavorable changes in U.S. policies on international trade and investment, the imposition of governmental economic sanctions on countries in which we do business, quotas, capital controls or other trade barriers, whether adopted by individual governments or addressed by regional trade blocks, threats of war, terrorism or governmental instability, currency controls, fluctuating exchange rates with respect to sales not denominated in U.S. dollars, changes in import/export regulations, tariffs and freight rates, potential negative consequences from changes to taxation policies, restrictions on the transfer of funds into or out of a country and the disruption of operations from labor and political disturbances. Government policies on international trade and investment can affect the demand for our products, impact the competitive position of our products or prevent us from being able to sell or manufacture products in certain countries. The implementation of more restrictive trade policies, such as higher tariffs or new barriers to entry, in countries in which we sell large quantities of products and services could negatively impact our business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on our results of operations. If we were unable to navigate the foreign regulatory environment, or if we were unable to enforce our contract rights in foreign countries, our business could be adversely impacted. Any of these events could reduce our sales, limit the prices at which we can sell our products, interrupt our supply chain or otherwise have an adverse effect on our operating performance.

In addition, a portion of our foreign sales are denominated in foreign currencies and amounted to \$4.7 million in 2018. To the extent that orders are denominated in foreign currencies, our reported sales and earnings are subject to foreign exchange fluctuations. In addition, there can be no assurance that our remaining international customers will continue to accept orders denominated in U.S. dollars. For those sales which are denominated in U.S. dollars, a weakening in the value of foreign currencies relative to the U.S. dollar could have a material adverse impact on us by increasing the

effective price of our products in international markets. Certain areas of the world are also more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers. We are also exposed to foreign currency fluctuations between the Canadian and U.S. dollar due to our screen manufacturing facility in Canada where a majority of its sales are denominated in the U.S. dollar while its expenses are denominated in Canadian currency. We cannot predict the effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposures and the potential volatility of currency exchange rates.

Any of these factors could adversely affect our foreign activities and our business, financial condition and results of operations.



***The risk of non-compliance with U.S. and foreign laws and regulations applicable to our international operations could have a significant impact on our results of operations, financial condition and strategic objectives.***

Our global operations subject us to regulation by U.S. federal and state laws and multiple foreign laws, regulations and policies, which could result in conflicting legal requirements. These laws and regulations are complex, change frequently, have tended to become more stringent over time and increase our cost of doing business. These laws and regulations include import and export control, environmental, health and safety regulations, data privacy requirements, international labor laws and work councils and anti-corruption and bribery laws such as the U.S. Foreign Corrupt Practices Act, the U.N. Convention Against Bribery and local laws prohibiting corrupt payments to government officials. We are subject to the risk that we, our employees, our affiliated entities, contractors, agents or their respective officers, directors, employees and agents may take action determined to be in violation of any of these laws. An actual or alleged violation could result in substantial fines, sanctions, civil or criminal penalties, and debarment from government contracts, curtailment of operations in certain jurisdictions, competitive or reputational harm, litigation or regulatory action and other consequences that might adversely affect our results of operations, financial condition and strategic objectives.

***We may become subject to additional sales tax collection obligations and claims for uncollected amounts.***

The application of sales tax and other indirect taxes on cross border sales by remote sellers is continuing to change and evolve. In June 2018, the U.S. Supreme Court decided *South Dakota v. Wayfair, Inc.*, a case challenging the prior law under which sellers were not required to collect sales and use tax unless they have a physical presence in the buyer's state. This decision will now allow states to adopt new or enforce existing laws requiring sellers to collect and remit sales and use tax, even in states in which the seller has no presence. The adoption or enforcement of any such legislation could result in additional sales and use tax collection responsibility for certain of our businesses. A number of states have already begun, or have positioned themselves to begin, requiring sales and use tax collection by remote sellers. We are in the process of determining how and when our collection practices may need to change in the relevant jurisdictions. It is possible that one or more jurisdictions may assert that we have liability for periods for which certain of our businesses have not collected sales, use or other similar taxes, and if such an assertion or assertions were successful, it could result in tax liabilities, including for past sales taxes and penalties and interest, which could materially adversely affect our business, financial condition and operating results.

***A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the United States or abroad could adversely affect our business or our access to capital markets in a material manner.***

Worsening economic and market conditions, downside shocks, or a return to recessionary economic conditions could serve to reduce demand for our products and adversely affect our operating results. These economic conditions may also impact the financial condition of one or more of our key suppliers, which could affect our ability to secure product to meet our customers' demand. In addition, a downturn in the cinema market could impact the valuation and

collectability of certain long-term receivables held by us. We 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 we sell our products.

*We rely extensively on our information technology systems and are vulnerable to damage and interruption.*

We rely on our information technology systems and infrastructure to process transactions, summarize results and manage our business, including maintaining client and supplier information. Additionally, we utilize third parties, including cloud providers, to store, transfer and process data. Our information technology systems, as well as the systems of our customers, suppliers and other partners, whose systems we do not control, are vulnerable to outages and an increasing risk of continually evolving deliberate intrusions to gain access to company sensitive information. Likewise, data security incidents and breaches by employees and others with or without permitted access to our systems pose a risk that sensitive data may be exposed to unauthorized persons or to the public. A cyber-attack or other significant disruption involving our information technology systems, or those of our customers, suppliers and other partners, could also result in disruptions in critical systems, corruption or loss of data and theft of data, funds or intellectual property. We may be unable to prevent outages or security breaches in our systems. We remain potentially vulnerable to additional known or yet unknown threats as, in some instances, we, our suppliers and our other partners may be unaware of an incident or its magnitude and effects. We also face the risk that we expose our customers or partners to cybersecurity attacks. Any or all of the foregoing could adversely affect our results of operations and cash flows, as well as our business reputation.

***Any failure to maintain the security of information relating to our customers, employees and suppliers, whether as a result of cybersecurity attacks or otherwise, could expose us to litigation, government enforcement actions and costly response measures, and could disrupt our operations and harm our reputation.***

In connection with the sales and marketing of our products and services, we may from time to time transmit confidential information. We also have access to, collect or maintain private or confidential information regarding our customers, employees, and suppliers, as well as our business. Cyberattacks are rapidly evolving and becoming increasingly sophisticated. It is possible that computer hackers and others might compromise our security measures, or security measures of those parties that we do business with now or in the future, and obtain the personal information of our customers, employees and suppliers or our business information. A security breach of any kind, including physical or electronic break-ins, computer viruses and attacks by hackers, employees or others, could expose us to risks of data loss, litigation, government enforcement actions, regulatory penalties and costly response measures, and could seriously disrupt our operations. Any resulting negative publicity could significantly harm our reputation, which could cause us to lose market share and have an adverse effect on our results of operations.

***If we fail to retain key members of management, or successfully integrate new executives, our business may be materially harmed.***

Our future success depends, in substantial part, on the efforts and abilities of our current management team. If certain of these individuals were to leave unexpectedly, we could experience substantial loss of institutional knowledge, face difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Our loss of services of any of our senior executives, or any failure to effectively integrate new management into our business processes, controls, systems and culture, could have a material adverse effect on us.

We have made changes to our management team in recent years. On November 24, 2015, the Board of Directors appointed D. Kyle Cerminara as our Chairman and Chief Executive Officer. Mr. Cerminara has been a member of the Board since February 2015 and has served as its Chairman since May 2015, assuming the role of Executive Chairman in September 2015. On November 2, 2015, Ray F. Boegner was promoted to the newly created position of President of the Strong Cinema business. On November 16, 2018, Mark D. Roberson was appointed as our Executive Vice President and Chief Financial Officer. These or other changes in key management could create uncertainty among our employees, suppliers and other business partners and are resulting in changes to the strategic direction of our business, any of which could have a material adverse effect on us.

***Our previous and any potential future acquisitions, strategic investments, entry into new lines of business, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.***

Our long-term strategy may include identifying and acquiring, investing in or merging with suitable candidates on acceptable terms, entry into new lines of business and markets or divesting of certain business lines or activities. In particular, over time, we may acquire, make investments in or merge with providers of product offerings that complement our business or may terminate such activities. Mergers, acquisitions, divestitures and entries into new lines of business include a number of risks and present financial, managerial and operational challenges, including but not limited to:

diversion of management attention from running our existing business;

possible material weaknesses in internal control over financial reporting;

increased expenses including legal, administrative and compensation expenses related to newly hired or terminated employees;

increased costs to integrate, develop or, in the case of a divestiture, separate the technology, personnel, customer base and business practices of the acquired, new or divested business or assets;

potential exposure to material liabilities not discovered in the due diligence process;

potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions;

potential damage to customer relationships or loss of synergies in the case of divestitures; and

unavailability of acquisition financing or inability to obtain such financing on reasonable terms.

Any acquired business, technology, service or product or entry into a new line of business could significantly under-perform relative to our expectations, and may not achieve the benefits we expect. For example, our entry into the Strong Outdoor line of business in 2018 poses many of the risks discussed above. For all these reasons, our pursuit of an acquisition, investment, new line of business, divestiture, merger or joint venture could cause our actual results to differ materially from those anticipated.

***Failure to effectively utilize or successfully assert intellectual property rights could negatively impact us.***

We own or otherwise have rights to various trademarks and trade names used in conjunction with the sale of our products, the most significant of which are Strong® and Convergent™. We rely on trademark laws to protect these intellectual property rights. We cannot assure that these intellectual property rights will be effectively utilized or, if necessary, successfully asserted. There is a risk that we will not be able to obtain and perfect our own intellectual property rights, or, where appropriate, license from others, intellectual property rights necessary to support new product introductions. Our intellectual property rights, and any additional rights we may obtain in the future, may be invalidated, circumvented or challenged in the future. Our failure to perfect or successfully assert intellectual property rights could harm our competitive position and could negatively impact us.

***Natural disasters and other catastrophic events beyond our control could adversely affect our business operations and financial performance.***

The occurrence of one or more natural disasters, such as fires, hurricanes, tornados, tsunamis, floods and earthquakes; geo-political events, such as civil unrest in a country in which our suppliers are located or terrorist or military activities disrupting transportation, communication or utility systems; or other highly disruptive events, such as nuclear accidents, pandemics, unusual weather conditions or cyberattacks, could adversely affect our operations and financial performance. Such events could result, among other things, in operational disruptions, physical damage to or destruction or disruption of one or more of our properties or properties used by third parties in connection with the supply of products or services to us, the lack of an adequate workforce in parts or all of our operations and communications and transportation disruptions. These factors could also cause consumer confidence and spending to decrease or result in increased volatility in the United States and global financial markets and economy. Such occurrences could have a material adverse effect on us and could also have indirect consequences such as increases in

the costs of insurance if they result in significant loss of property or other insurable damage.

*The insurance that we maintain may not fully cover all potential exposures.*

We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We are potentially at risk if one or more of our insurance carriers fail. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the ratings and survival of some insurers. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

***Entities affiliated with Fundamental Global Investors, LLC, whose interests may differ from the interests of our other stockholders, have significant influence over the Company.***

The interests of Fundamental Global Investors, LLC and its affiliates may differ from the interests of our other stockholders. Fundamental Global Investors, LLC and its affiliates hold approximately 36.1% of the Company's outstanding shares of common stock as of December 31, 2018. Mr. Cerminara, the Chief Executive Officer, Co-Founder and Partner of Fundamental Global Investors, LLC, serves as our Chairman and Chief Executive Officer. In addition, Lewis M. Johnson, the President, Co-Founder and Partner of Fundamental Global Investors, LLC, serves as a member of our board of directors. As a result of its ownership position and Mr. Cerminara's and Mr. Johnson's positions with the Company, Fundamental Global Investors, LLC has the ability to exert significant influence over our policies and affairs, including the power to impact the election of our directors, appointment of our management and approval of any action requiring a shareholder vote, such as amendments to our certificate of incorporation, bylaws, significant stock issuances, mergers and asset sales. Fundamental Global Investors, LLC may have interests that differ from those of our other stockholders and may vote in a way with which our other stockholders disagree and which may be adverse to their interests. Fundamental Global Investors, LLC's significant ownership may also have the effect of delaying, preventing or deterring a change of control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of the Company and might ultimately affect the market price of our common stock.

***Our stock price is vulnerable to significant fluctuations.***

The trading price of our common stock has been highly volatile in the past and could be subject to significant fluctuations in response to variations in quarterly operating results, general conditions in the industries in which we operate and other factors. In addition, the stock market is subject to price and volume fluctuations affecting the market price for the stock of many companies generally, which fluctuations often are unrelated to operating performance.

***Item 1B. Unresolved Staff Comments***

Not applicable.

***Item 2. Properties***

Our headquarters are located at 11422 Miracle Hills Drive, Omaha, Nebraska, where we lease office space. The premises are used for offices supporting our operating segments and operating the Omaha NOC. The lease expires in

November 2021. In addition, we and our subsidiaries owned or leased the following facilities as of December 31, 2018:

Our Strong/MDI Screen Systems, Inc. subsidiary owns an 83,000 square-foot manufacturing plant in Joliette, Quebec, Canada. The facility is used for offices, manufacturing, assembly and distribution of the cinema and other screens. We believe this facility is well maintained and adequate for future needs.

The Company leases office space in Mooresville, North Carolina. The lease expires in November of 2020.

We lease a 43,000 square-foot office facility in Alpharetta, Georgia, which is primarily used by our Convergent business, under a lease expiring in June 2028. The facility is used for offices and operating the Alpharetta NOC. In addition, Convergent leases an office facility in Toronto, Ontario, Canada, under a lease expiring in October 2019. We believe these facilities are adequate for future needs and are used by both of our operating segments.

In January 2019, Strong Digital Media entered into a lease expiring in January 2022 for a floor of an office building located in Manhattan, New York. The lease contains an option to renew for an additional 2-year period at the end of the initial term.

We do not anticipate any difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or replacing them with equivalent leased facilities.



***Item 3. Legal Proceedings***

In the ordinary course of our 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 4. Mine Safety Disclosures***

Not applicable.

**PART II**

***Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is listed and traded on the NYSE American under the symbol "BTN."

According to the records of our transfer agent, we had 114 stockholders of record of our common stock on March 1, 2019. Because brokers and other institutions hold many of our shares on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

***Stock Repurchases***

On August 20, 2015, we announced that our Board of Directors adopted a stock repurchase program authorizing the repurchase of up to 700,000 shares of our outstanding common stock pursuant to a plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 (as amended). The program has no expiration date. There were no repurchases during the fourth quarter of 2018. As of December 31, 2018, there were 636,931 shares that may yet be purchased under the stock repurchase program.

***Dividend Policy***

We intend to retain our earnings to assist in financing our business and making investments and do not anticipate paying cash dividends on our common stock in the foreseeable future. The declaration and payment of dividends by the Company are also subject to the discretion of the Board. Any determination by the Board as to the payment of dividends in the future will depend upon, among other things, business conditions, our financial condition and capital requirements, as well as any other factors deemed relevant by the Board. We have not paid cash dividends since we went public in 1995.

***Item 6. Selected Financial Data***

Not applicable as we are a “smaller reporting company.”

***Item 7. 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. 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 as 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

The Company conducts its operations through three operating segments: Strong Cinema, Convergent and Strong Outdoor. Our Strong Cinema business is one of the largest manufacturers of premium projection screens. We also manufacture customized screen support systems, distribute other products and provide technical support services to the cinema, amusement park and other markets. Convergent delivers digital signage solutions and related services to large multi-location organizations in the United States and Canada. Strong Outdoor provides outdoor advertising and experiential marketing to corporate customers. Strong Outdoor started operations in the second half of 2018 and began selling advertising on its approximately 3,500 taxi cab signs in New York City, with plans to ramp operations, enter other markets and begin its experiential marketing operations in 2019.

## Results of Operations:

The following table sets forth, for the periods indicated, the percentage of net revenues represented by certain items reflected in our consolidated statements of operations.

	Years ended	
	December 31,	
	2018	2017
Net revenues	100.0%	100.0%
Cost of revenues	81.2	73.9
Gross profit	18.8	26.1
Selling and administrative expenses	31.5	29.6
Loss from operations	(16.0 )	(3.9 )
Net loss from continuing operations	(19.1 )	(4.9 )

**2018 Compared to 2017**

**Revenues**

Net revenues during 2018 decreased 11.0% to \$64.7 million from \$72.6 million in 2017. The decrease in revenue was primarily due to reductions in our Strong Cinema and Convergent businesses where we stopped selling certain lower-margin product lines, partially offset by new revenue from the start-up of business at Strong Outdoor.

	2018	2017	\$	%
			Change	Change
	(dollars in thousands)			
Strong Cinema	\$44,361	\$48,938	\$(4,577)	(9.4)%
Convergent	17,210	24,348	(7,138)	(29.3)%
Strong Outdoor	3,632	-	3,632	N/A
Other	308	175	133	76.0%
Total segment net revenues	65,511	73,461	(7,950)	(10.8)%
Eliminations	(822)	(815)	(7)	0.9%
Total net revenues	\$64,689	\$72,646	\$(7,957)	(11.0)%

Sales of Strong Cinema products and services decreased primarily due to changes in product mix in our screen business and the decision to exit certain lower margin product lines. During July 2017, we ceased distributing certain lower-margin lamp products, resulting in a \$3.0 million reduction in cinema revenue year over year. In addition, revenue from screens decreased \$1.9 million due to changes in product mix as cinemas in the United States installed fewer 3D screens, which carry a higher price per unit than 2D screens. Those decreases were partially offset by increased sales of screen support structures, installation services and other products.

Sales of Convergent products and services decreased as we pivoted the business to standardize on Linux-based hardware and moved more of the business to a recurring revenue DSaaS model. Declines in revenue from the loss of several large customers in 2017 were partially offset by growth in revenue from new enterprise DSaaS customers in the second half of 2018.

Strong Outdoor was a start-up business that began producing advertising revenue in mid-2018. Revenue from advertising services in 2018 amounted to \$3.6 million and consisted of \$2.6 million from traditional vinyl taxicab tops and \$0.8 million from digital taxicab tops.

## Gross Profit

Consolidated gross profit decreased 35.7% to \$12.2 million in 2018 from \$18.9 million in 2017 and, as a percentage of total revenues, decreased to 18.8% in 2018 from 26.1% in 2017.

	2018	2017	\$	%
			Change	Change
	(dollars in thousands)			
Strong Cinema	\$14,710	\$14,919	\$(209)	(1.4)%
Convergent	2,061	3,840	(1,779)	(46.3)%

Edgar Filing: BALLANTYNE STRONG, INC. - Form 10-K

Strong Outdoor	(4,843 )	-	(4,843 )	N/A
Other	308	175	133	76.0 %
Total segment gross profit	12,236	18,934	(6,698 )	(35.4 )%
Eliminations	(57 )	-	(57 )	N/A
Total gross profit	\$12,179	\$18,934	\$(6,755 )	(35.7 )%

Gross profit in the Strong Cinema segment was \$14.7 million or 33.2% of revenues in 2018 compared to \$14.9 million or 30.5% of revenues in 2017. The increase in gross profit as a percentage of revenue is due primarily to a shift in product mix as 2018 represents a full year with decreased sales of our lower margin lamps, which favorably impacted gross profit as a percent of revenue. In addition, we reduced certain indirect costs of revenues by relocating to a smaller, lower cost warehouse facility.

Gross profit for Convergent was \$2.1 million or 12.0% of revenues in 2018 compared to \$3.8 million or 15.8% of revenues in 2017, due to unfavorable absorption of fixed operating costs on lower revenues.

Gross loss for Strong Outdoor was \$4.8 million in 2018 as we incurred costs of operation during most of the year, but did not begin generating significant revenues until the second half of 2018.

## Operating Loss

We generated an operating loss of \$10.3 million in 2018 compared to an operating loss of \$2.8 million in 2017.

	2018	2017	\$	%
			Change	Change
	(dollars in thousands)			
Strong Cinema	\$ 10,407	\$ 10,678	\$(271 )	(2.5 )%
Convergent	(4,483 )	(3,944 )	(539 )	13.7 %
Strong Outdoor	(6,070 )	-	(6,070 )	N/A
Other	(309 )	(340 )	31	(9.1 )%
Total segment operating (loss) income	(455 )	6,394	(6,849 )	(107.1 )%
Unallocated general and administrative expenses	(9,076 )	(9,208 )	132	(1.4 )%
Unallocated loss on disposal of assets	(818 )	-	(818 )	N/A
Total operating loss	\$(10,349 )	\$(2,814 )	\$(7,535 )	267.8 %

Strong Cinema generated operating income of \$10.4 million in 2018 compared to \$10.7 million in 2017, generally consistent with prior year performance. Reductions in revenue noted above from reduced sales of lower margin products were accompanied by reduced operating costs, increasing operating income as a percent of revenue to 23.5% in 2018 from 21.8% in 2017.

Convergent generated an operating loss of \$4.5 million in 2018 compared to \$3.9 million in 2017. We restructured Convergent's operations in 2018 to reduce operating costs, eliminate low/negative margin products, and to invest in growing our higher margin recurring revenue business lines. In connection with those efforts, we incurred non-cash impairment charges of approximately \$1.5 million in 2018. The actions taken to restructure operations at Convergent negatively impacted full year results, with improvements in recurring revenue and profitability starting in the latter part of 2018. In the fourth quarter of 2018, Convergent delivered its first profitable quarter, and we expect this business to continue to improve in 2019 on lower operating costs and increasing high margin recurring revenue.

Strong Outdoor generated an operating loss of \$6.1 million in 2018. Strong Outdoor started operations in 2018, incurring startup operating costs for the majority of the year while revenues were not significant until the second half of 2018. We expect Strong Outdoor to continue to generate operating losses in 2019 as monthly expenses are expected to exceed revenues; however, we expect operating losses to improve over the course of 2019 as we increase advertising sales.

Unallocated general and administrative expenses amounted to \$9.1 million in 2018 compared to \$9.2 million in 2017. Decreases in consulting expenses were partially offset by increased personnel-related and legal costs.

### **Other Financial Items**

In 2018, total other income of \$1.0 million consisted of a \$1.2 million fair value adjustment to our notes receivable and \$0.3 million of foreign currency transaction gains, partially offset by \$0.4 million of interest expense. Interest expense increased due to higher average borrowings outstanding in 2018 compared to 2017. In 2017, total other income of \$0.7 million primarily consisted of a \$1.1 million fair value adjustment to our notes receivable, partially offset by \$0.3 million of foreign currency transaction losses and \$0.2 million of net interest expense.

Income tax expense was approximately \$2.4 million in 2018 compared to \$3.4 million in 2017. Our income tax expense consists primarily of income tax on foreign earnings.



We recorded an equity method investment loss of \$0.6 million in 2018, consisting of other-than-temporary impairment charges of \$0.7 million and equity method investment loss of \$0.5 million from Itasca and an equity method investment loss of \$0.4 million from BKTI, partially offset by equity method investment income of \$0.2 million from PIH and a gain on the sale of BKTI common stock of \$0.8 million. Equity method investment income in 2017 was \$2.0 million, consisting primarily of \$2.1 million of income from our investment in Itasca.

As a result of the items outlined above, we recorded a net loss of \$12.3 million, or \$0.86 basic and diluted losses per share, in 2018, compared to a net loss of \$3.6 million, or \$0.25 basic and diluted losses per share, in 2017.

### **Liquidity and Capital Resources**

During the past several years, we have primarily met our working capital and capital resource needs from our operating cash flows and credit facilities. We incurred operating losses and negative operating cash flow in our Convergent business for the first three quarters of 2018, as we executed our plans to restructure that business to reduce operating costs and invest in higher margin recurring revenue. The startup of Strong Outdoor negatively impacted our cash flow by approximately \$8.9 million. Our Strong Cinema segment provides a relatively strong and stable source of operating cash flow, with approximately \$12.6 million in 2018. Cash flow from Strong Cinema was used to fund operating expenses and startup costs in our other lines of business during 2018. In addition, we entered into a sale/leaseback transaction resulting in net proceeds of \$4.1 million in the second quarter of 2018 and monetized our equity investment in BKTI for \$4.5 million in the third quarter of 2018. We also financed approximately \$5.3 million of media players and related equipment for our Convergent subsidiary under a combination of term loans and capital leases in 2018.

We ended 2018 with total cash and cash equivalents and restricted cash of \$7.0 million compared to \$4.9 million at December 31, 2017. Of the \$7.0 million as of December 31, 2018, \$2.4 million was held by our Canadian subsidiary, Strong/MDI and \$0.4 million was restricted. Strong/MDI also makes intercompany loans to the U.S. parent company which do not trigger Canadian withholding taxes if they meet certain requirements. As of December 31, 2018, the parent company had outstanding intercompany loans from Strong/MDI of approximately \$30.8 million. In the event those loans are not repaid, or are recharacterized as dividends to the U.S. parent company, we would be required to pay Canadian withholding taxes, which have been fully accrued as of December 31, 2018.

On May 22, 2018, our subsidiary, Convergent, entered into an installment payment agreement with an equipment financing company in order to purchase media players and related equipment in an aggregate amount of up to approximately \$4.4 million. Installment payments under each contract for purchase of the equipment are due monthly for a period of 60 months. The financing provided in the agreement is secured by the equipment. The borrowings under the agreement bear interest at a fixed rate based on the three-year U.S. Treasury Note yield plus a spread at the time of funding. In December 2018, Convergent entered into additional installment payment agreements with other financing companies in order to purchase additional media players and related equipment. This round of financing

totaled approximately \$0.6 million. Installment payments under each contract are due monthly for a period of 60 months. The financing under the agreements is secured by the equipment. The borrowings under the agreements are recorded as long-term debt on our consolidated balance sheet. Collectively, we had \$4.4 million of outstanding borrowings under equipment term loan agreements at December 31, 2018, which bear interest at a weighted-average fixed rate of 6.8%.

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

In 2017, our Canadian subsidiary, Strong/MDI, entered into a demand credit agreement consisting of a revolving line of credit for up to CDN\$3.5 million subject to a borrowing base requirement, a 20-year installment loan for up to CDN\$6.0 million and a 5-year installment loan for up to CDN\$500,000. The Strong/MDI credit facilities are secured by a lien on Strong/MDI's Quebec, Canada facility and substantially all of Strong/MDI's assets. Strong/MDI borrowed CDN\$4.5 million on the 20-year installment loan during 2018. There was CDN\$4.3 million of principal outstanding on the 20-year installment loan as of December 31, 2018. The outstanding principal bears variable interest based on the lender's prime rate plus 0.5%, which equaled 4.53% on December 31, 2018. Strong/MDI was in compliance with its debt covenants as of December 31, 2018.

We believe that our existing sources of liquidity, including cash and cash equivalents, operating cash flow, credit facilities, equity investments, receivables and other assets will be sufficient to meet our projected capital needs for the foreseeable future.

#### *Cash Flows from Operating Activities*

Net cash used in operating activities was \$7.2 million for 2018 as compared with \$0.1 million for 2017. As discussed above, our Strong Cinema business generated positive operating income and cash flows from operations, which we used to invest in the startup of Strong Outdoor and to support the turnaround and restructuring of our Convergent business, as well as to cover general and administrative expenses.

#### *Cash Flows from Investing Activities*

Net cash provided by investing activities was \$2.6 million in 2018, consisting primarily of \$4.5 million of proceeds from our sale of BKTI common stock, partially offset by \$2.0 million of capital expenditures. Net cash used in investing activities was \$5.4 million for 2017, primarily due to \$2.5 million used in purchases of equity securities and \$3.3 million of capital expenditures.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities was \$7.1 million in 2018, consisting primarily of \$7.0 million of proceeds from the sale-leaseback of our Alpharetta, GA office facility and \$4.0 million of proceeds from issuance of short-term debt, partially offset by \$3.6 million of principal payments on debt, including repayment in conjunction with the sale-leaseback of approximately \$2.9 million of debt previously secured by the Alpharetta, GA facility. Net cash provided by financing activities in 2017 was \$2.1 million, primarily due to \$2.5 million of proceeds from issuance of debt, offset slightly by \$0.1 million of treasury stock purchases and \$0.2 million of capital lease payments.

### **Financial Instruments and Credit Risk Concentrations**

Our top ten customers accounted for approximately 46% of 2018 consolidated net revenues, including one Strong Cinema customer that individually accounted for 14% of 2018 consolidated net revenues. Trade accounts receivable from our top ten customers represented approximately 45% of net consolidated receivables at December 31, 2018.

While we believe our 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 our significant customers could have a material adverse effect on our business, financial condition and results of operations. We 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 we sell our products.

Financial instruments that potentially expose us to a concentration of credit risk principally consist of accounts receivable and notes receivable. We sell products to a large number of customers in many different geographic regions. To minimize credit concentration risk, we perform ongoing credit evaluations of our customers' financial condition or use letters of credit.

### **Hedging and Trading Activities**

Our primary exposure to foreign currency fluctuations pertains to our operations in Canada. In certain instances, we may enter into foreign exchange contracts 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**

Our off balance sheet arrangements consist principally of leasing equipment and facilities under operating leases.

### **Inflation**

We believe that the relatively moderate rates of inflation in recent years have not had a significant impact on our net revenues or profitability. Historically, we have been able to offset any inflationary effects by either increasing prices or improving cost efficiencies.

### **Recently Issued Accounting Pronouncements**

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

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

#### **General**

The following accounting policies involve judgments and estimates used in preparation of the consolidated financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

Our accounting policies are discussed in Note 3 to the consolidated financial statements in this report. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the consolidated financial statements.

## Revenue Recognition

On January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Topic 606, “Revenue from Contracts with Customers,” (“ASC 606”) using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

Under ASC 606, we account for revenue using the following steps:

- Identify the contract, or contracts, with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the identified performance obligations; and
- Recognize revenue when, or as, the Company satisfies the performance obligations.

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

As discussed in more detail in Note 3 to the consolidated financial statements, revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. We do not have any material extended payment terms, as payment is due at or shortly after the time of the sale. Observable prices are used to determine the standalone selling price of separate performance obligations, or a cost plus margin approach is used when observable prices are not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

### **Inventory Valuation**

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Our policy is to evaluate all inventory quantities for amounts on-hand that are potentially in excess of estimated usage requirements, and to write down any excess quantities to estimated net realizable value. Inherent in the estimates of net realizable values are management's estimates related to customer demand and the development of new technology, which could make our theater and digital media products obsolete, among other items.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. We use an estimate of our annual effective rate at each interim period based on the facts and circumstances at the time while the actual effective rate is calculated at year-end. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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 the valuation allowance recorded against the Company's U.S. tax jurisdiction deferred tax assets is appropriate as of December 31, 2018.

***Item 7A. Quantitative and Qualitative Disclosures About Market Risk***

Not applicable as we are a “smaller reporting company.”



*Item 8. Financial Statements and Supplementary Data*

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page No.</b>
<u>Report of Independent Registered Public Accounting Firm – BDO USA, LLP</u>	26
Consolidated Financial Statements	
<u>Consolidated Balance Sheets—December 31, 2018 and 2017</u>	27
<u>Consolidated Statements of Operations—Years Ended December 31, 2018 and 2017</u>	28
<u>Consolidated Statements of Comprehensive Loss—Years Ended December 31, 2018 and 2017</u>	29
<u>Consolidated Statements of Stockholders' Equity—Years Ended December 31, 2018 and 2017</u>	30
<u>Consolidated Statements of Cash Flows—Years Ended December 31, 2018 and 2017</u>	31
<u>Notes to Consolidated Financial Statements—Years Ended December 31, 2018 and 2017</u>	33

## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors

Ballantyne Strong, Inc.

Omaha, Nebraska

## **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Ballantyne Strong, Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive loss, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

## **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ BDO USA, LLP*

We have served as the Company's auditor since 2016.

Raleigh, North Carolina

March 12, 2019

**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Balance Sheets****(In thousands, except par values)**

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,698	\$ 4,870
Restricted cash	350	-
Accounts receivable (net of allowance for doubtful accounts of \$1,832 and \$1,877 respectively)	13,841	10,766
Inventories, net	3,490	4,821
Recoverable income taxes	281	495
Other current assets	1,663	1,290
Total current assets	26,323	22,242
Property, plant and equipment (net of accumulated depreciation of \$9,561 and \$8,780 respectively)	15,175	10,826
Equity method investments	11,167	18,053
Intangible assets, net	1,795	3,972
Goodwill	875	952
Notes receivable	3,965	2,815
Other assets	337	154
Total assets	\$ 59,637	\$ 59,014
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,724	\$ 3,425
Accrued expenses	2,782	2,882
Short-term debt	3,152	500
Current portion of long-term debt	1,094	65
Current portion of capital lease obligations	160	189
Deferred revenue and customer deposits	2,310	1,619
Total current liabilities	14,222	8,680
Long-term debt, net of current portion and debt issuance costs	10,053	1,870
Capital lease obligations, net of current portion	427	113
Deferred revenue and customer deposits, net of current portion	1,167	1,207
Deferred income taxes	2,516	2,816
Other accrued expenses, net of current portion	254	206
Total liabilities	28,639	14,892
Stockholders' equity:		
Preferred stock, par value \$.01 per share; authorized 1,000 shares, none outstanding	-	-
Common stock, par value \$.01 per share; authorized 25,000 shares; issued 17,237 and 17,216 shares at December 31, 2018 and 2017, respectively; outstanding 14,443 and 14,422 shares at December 31, 2018 and 2017, respectively	169	169

Edgar Filing: BALLANTYNE STRONG, INC. - Form 10-K

Additional paid-in capital	41,474	40,565
Accumulated other comprehensive income (loss):		
Foreign currency translation	(5,308 )	(4,048 )
Postretirement benefit obligations	125	99
Unrealized (loss) gain on available-for-sale securities of equity method investment	(195 )	353
Retained earnings	13,319	25,570
	49,584	62,708
Less 2,794 of common shares in treasury, at cost	(18,586 )	(18,586 )
Total stockholders' equity	30,998	44,122
Total liabilities and stockholders' equity	\$ 59,637	\$ 59,014

See accompanying notes to consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Statements of Operations**

(In thousands, except per share amounts)

	Years Ended December 31,	
	2018	2017
Net product sales	\$34,378	\$47,544
Net service revenues	30,311	25,102
Total net revenues	64,689	72,646
Cost of products sold	29,116	35,446
Cost of services	23,394	18,266
Total cost of revenues	52,510	53,712
Gross profit	12,179	18,934
Selling and administrative expenses:		
Selling	4,806	5,417
Administrative	15,587	16,121
Total selling and administrative expenses	20,393	21,538
Loss on disposal of assets	(2,135 )	(210 )
Loss from operations	(10,349)	(2,814)
Other income (expense):		
Interest income	-	9
Interest expense	(447 )	(153 )
Fair value adjustment to notes receivable	1,150	1,146
Foreign currency transaction gain (loss)	333	(304 )
Other expense, net	(35 )	(16 )
Total other income	1,001	682
Loss before income taxes and equity method investment income	(9,348 )	(2,132 )
Income tax expense	2,427	3,418
Equity method investment (loss) income	(552 )	1,958
Net loss from continuing operations	(12,327)	(3,592)
Net loss from discontinued operations, net of tax	-	(25 )
Net loss	\$(12,327)	\$(3,617)
Net loss earnings per share - basic		
Net loss from continuing operations	\$(0.86 )	\$(0.25 )
Net loss from discontinued operations	-	(0.00 )
Net loss	(0.86 )	(0.25 )
Net loss per share - diluted		
Net loss from continuing operations	\$(0.86 )	\$(0.25 )
Net loss from discontinued operations	-	(0.00 )
Net loss	(0.86 )	(0.25 )

See accompanying notes to consolidated financial statements.



**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Statements of Comprehensive (Loss) Income**

(In thousands)

	Years Ended December 31,	
	2018	2017
Net loss	\$(12,327)	\$(3,617)
Adjustment to postretirement benefit obligation		
Prior service credit	(24 )	(24 )
Net actuarial gain	50	26
Total adjustment to postretirement benefit obligation	26	2
Unrealized (loss) gain on available-for-sale securities of equity method investments, net of tax	(226 )	217
Reclassification adjustment for sale of equity method investment	(322 )	-
Currency translation adjustment:		
Unrealized net change arising during period	(1,260 )	1,661
Total other comprehensive (loss) income	(1,782 )	1,880
Comprehensive loss	\$(14,109)	\$(1,737)

See accompanying notes to consolidated financial statements.



**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Statements of Stockholders' Equity****Years Ended December 31, 2018 and 2017**

(\$ and shares in thousands)

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Stockholders' Equity</b>
Balance at December 31, 2016	\$ 169	\$ 39,758	\$ 29,187	\$(18,484)	\$ (5,476)	) \$ 45,154
Net loss	-	-	(3,617)	-	-	(3,617)
Net other comprehensive income	-	-	-	-	1,880	1,880
Treasury share purchase of 15 shares	-	-	-	(102)	-	(102)
Stock-based compensation expense	-	736	-	-	-	736
Proceeds from exercise of stock options	-	71	-	-	-	71
Balance at December 31, 2017	169	40,565	25,570	(18,586)	(3,596)	) 44,122
Net loss	-	-	(12,327)	-	-	(12,327)
Net other comprehensive loss	-	-	-	-	(1,782)	(1,782)
Cumulative effect of adoption of ASC 606	-	-	76	-	-	76
Issuance of warrants to purchase 100 shares of common stock, net of issuance costs	-	72	-	-	-	72
Stock-based compensation expense	-	837	-	-	-	837
Balance at December 31, 2018	\$ 169	\$ 41,474	\$ 13,319	\$(18,586)	\$ (5,378)	) \$ 30,998

See accompanying notes to consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(In thousands)

	Years Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(12,327)	\$(3,617)
Net loss from discontinued operations, net of tax	-	(25 )
Net loss from continuing operations	(12,327)	(3,592)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Provision for doubtful accounts	188	822
Provision for obsolete inventory	170	347
Provision for warranty	208	295
Depreciation and amortization	2,712	2,140
Impairment of intangible assets	-	41
Fair value adjustment to notes receivable	(1,150 )	(1,146)
Equity method investment loss (income)	552	(1,958)
Recognition of contract acquisition costs	29	-
Impairment of contract acquisition costs	59	-
Loss on disposal of assets	2,135	210
Deferred income taxes	(250 )	1,062
Stock-based compensation expense	837	736
Dividends received from investee	813	-
Impairment of operating lease	209	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,540 )	4,887
Inventories	1,020	1,508
Other current assets	(445 )	300
Accounts payable	1,399	(1,687)
Accrued expenses	(391 )	(1,371)
Deferred revenue and customer deposits	682	(2,630)
Current income taxes	192	96
Other assets	(327 )	(50 )
Net cash flows (used in) provided by operating activities - continuing operations	(7,225 )	10
Net cash flows used in operating activities - discontinued operations	-	(123 )
Net cash used in operating activities	(7,225 )	(113 )
Cash flows from investing activities:		
Proceeds from sale of equity securities	4,531	-
Dividends received from investee in excess of cumulative earnings	69	253
Capital expenditures	(1,984 )	(3,275)

Purchase of equity securities	-	(2,525)
Net cash flows provided by (used in) investing activities - continuing operations	2,616	(5,547)
Net cash flows provided by investing activities - discontinued operations	-	134
Net cash provided by (used in) investing activities	2,616	(5,413)

(Continued on following page)

See accompanying notes to consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries****Consolidated Statements of Cash Flows – (Continued)**

(In thousands)

Cash flows from financing activities:		
Proceeds from sale-leaseback financing	\$7,000	\$-
Proceeds from issuance of long-term debt	-	2,000
Proceeds from issuance of short-term debt	3,963	500
Principal payments on short-term debt	(1,154)	-
Principal payments on long-term debt	(2,476)	(33 )
Payment of debt issuance costs	(22 )	(49 )
Payment of costs attributable to issuance of equity contract	(8 )	-
Purchase of treasury stock	-	(102 )
Proceeds from exercise of stock options	-	71
Payments on capital lease obligations	(230 )	(240 )
Net cash provided by financing activities	7,073	2,147
Effect of exchange rate changes on cash and cash equivalents - continuing operations	(286 )	478
Net increase (decrease) in cash and cash equivalents and restricted cash	2,178	(2,901)
Discontinued operations activity included above:		
Add: Cash balance included in assets held for sale at beginning of period	-	175
Less: Cash balance included in assets held for sale at end of period	-	-
Cash and cash equivalents and restricted cash at beginning of period	4,870	7,596
Cash and cash equivalents and restricted cash at end of period	\$7,048	\$4,870
Components of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	\$6,698	\$4,870
Restricted cash	350	-
Total cash and cash equivalents and restricted cash	\$7,048	\$4,870
Supplemental disclosure of cash paid for:		
Interest	\$401	\$152
Income taxes	\$2,620	\$2,830
Supplemental disclosure of non-cash investing and financing activities:		
Term loan borrowings to finance equipment purchases	\$4,761	\$-
Capital lease obligations for property and equipment	\$515	\$-

See accompanying notes to consolidated financial statements.

## **Ballantyne Strong, Inc. and Subsidiaries**

### **Notes to the Consolidated Financial Statements**

(In thousands, except share and per share amounts)

#### **1. Basis of Presentation**

##### ***Business Description***

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

##### ***Principles of Consolidation***

The 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.

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

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

**2. Discontinued Operations**

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

	Year ended
	December 31, 2017
Total net revenues	\$ 24
Total cost of revenues	48
Total selling and administrative expenses	53
Loss from operations of discontinued operations	(77 )
Loss before income taxes	(25 )
Income tax expense (benefit)	-
Net loss from discontinued operations, net of tax	\$ (25 )

There was no depreciation and amortization related to discontinued operations recorded for the year ended December 31, 2017. There were no capital expenditures related to discontinued operations during the year ended December 31, 2017.

### 3. Summary of Significant Accounting Policies

#### *Revenue Recognition*

On January 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Topic 606, “Revenue from Contracts with Customers,” (“ASC 606”) using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

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

- Identify the contract, or contracts, with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the identified performance obligations; and
- Recognize revenue when, or as, the Company satisfies the performance obligations.

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

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

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



Deferred contract acquisition costs are included in other assets. Beginning January 1, 2018, with the adoption of ASC 606, the Company defers costs to acquire contracts, including commissions, incentives and payroll taxes, if they are incremental and recoverable costs of obtaining a customer contract with a term exceeding one year. Deferred contract costs are reported within other assets and amortized to selling expense over the contract term, which generally ranges from one to five years. The Company has elected to recognize the incremental costs of obtaining a contract with a term of less than one year as a selling expense when incurred. Prior to 2018, all contract acquisition costs were expensed as incurred. The Company recorded a transition adjustment of approximately \$76 thousand increasing the opening balance of retained earnings, primarily related to the deferral and amortization of direct and incremental costs of obtaining contracts. The following table summarizes the changes in the Company's contract asset balance during the year ended December 31, 2018 (in thousands):

Deferred contract acquisition costs as of January 1, 2018	\$76
Costs capitalized	12
Amortization	(29)
Impairment	(59)
Deferred contract acquisition costs as of December 31, 2018	\$-

During the year ended December 31, 2018, the Company recorded an impairment charge of \$59 thousand for the remaining deferred contract acquisition costs, as they are no longer considered recoverable based on the customer's recent credit history.

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

**Condensed Consolidated Statements of Operations:**

	As reported for the  12 months ended December 31, 2018	Adjustments	Balances without adoption of ASC 606
Total net revenues	\$ 64,689	\$ 271	\$ 64,960
Total cost of revenues	52,510	271	52,781
Gross profit	12,179	-	12,179
Total selling and administrative expenses	20,393	(78 )	20,315
Loss on disposal of assets	(2,135 )	-	(2,135 )

Edgar Filing: BALLANTYNE STRONG, INC. - Form 10-K

Loss from operations	(10,349 )	78	(10,271 )
Other income	1,001	-	1,001
Loss before income taxes and equity method investment loss	(9,348 )	78	(9,270 )
Income tax expense	2,427	-	2,427
Equity method investment loss	(552 )	-	(552 )
Net loss	\$ (12,327 )	\$ 78	\$ (12,249 )
Net loss per share of common stock:			
Basic	\$ (0.86 )	0.01	\$ (0.85 )
Diluted	\$ (0.86 )	0.01	\$ (0.85 )

The adoption of ASC 606 did not have any net impact on the Company's consolidated balance sheet as of December 31, 2018, or other comprehensive loss or cash flows for the year then ended.

The following table disaggregates the Company's revenue by major source for the year ended December, 2018 (in thousands):

	Strong Cinema	Convergent	Strong Outdoor	Other	Eliminations	Total
Screen system sales	\$17,445	\$ -	\$ -	\$ -	\$ -	\$17,445
Digital equipment sales	9,956	4,110	-	-	(279 )	13,787
Field maintenance and monitoring services	11,541	8,726	-	-	(486 )	19,781
Installation services	2,055	4,356	-	-	-	6,411
Extended warranty sales	1,041	-	-	-	-	1,041
Advertising	-	-	3,632	-	-	3,632
Other	2,323	18	-	308	(57 )	2,592
Total	\$44,361	\$ 17,210	\$ 3,632	\$ 308	\$ (822 )	\$64,689

#### *Screen system sales*

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

#### *Digital equipment sales*

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

#### *Field maintenance and monitoring services*

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

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

*Installation services*

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

*Extended warranty sales*

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

*Advertising*

Strong Outdoor sells advertising space on top of taxicabs. Advertising revenue is recognized ratably over the contracted advertising periods.

At January 1, 2018, \$0.8 million of unearned revenue associated with maintenance and monitoring services and extended warranty sales in which the Company is the primary obligor was reported in deferred revenue and customer deposits. During the year ended December 31, 2018, all of this balance was earned and recognized as revenue. At December 31, 2018, the unearned revenue amount was \$1.0 million. The Company expects to recognize \$0.9 million of unearned revenue amounts in 2019 and immaterial amounts each year from 2020-2022.

The following table disaggregates the Company's revenue by the timing of transfer of goods or services to the customer for the year ended December 31, 2018 (in thousands):

	Strong Cinema	Convergent	Strong Outdoor	Other	Eliminations	Total
Point in time	\$37,456	9,565	31	\$48	\$ (822)	) \$46,278
Over time	6,905	7,645	3,601	260	-	18,411
Total	\$44,361	\$ 17,210	\$ 3,632	\$ 308	\$ (822)	) \$64,689

### ***Cash and Cash Equivalents***

All short-term, highly liquid financial instruments are classified as cash equivalents in the consolidated balance sheets and statements of cash flows. Generally, these instruments have maturities of three months or less from date of purchase. As of December 31, 2018, \$2.4 million of the \$6.7 million in cash and cash equivalents was held by our foreign subsidiary.

### ***Restricted Cash***

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

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

We apply the equity method of accounting to investments when we have significant influence, but not controlling interest in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. The Company's proportionate share of the net

income (loss) resulting from these investments is reported under the line item captioned “equity method investment (loss) income” in our Consolidated Statements of Operations. The carrying value of our equity method investments is reported in equity method investments in the Consolidated Balance Sheets. The Company’s equity method investments are reported at cost and adjusted each period for the Company’s share of the investee’s income or loss and dividend paid, if any. The Company’s share of the investee’s income or loss is recorded on a one quarter lag for all equity method investments. The Company classifies distributions received from equity method investments using the cumulative earnings approach on the Consolidated Statements of Cash Flows. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. The Company recorded other-than-temporary impairment charges totaling \$0.7 million related to its equity method investments during the year ended December 31, 2018 and did not record any such impairment charges during the year ended December 31, 2017. Note 6 contains additional information on our equity method investments.

### *Accounts and Notes Receivable*

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

The Company elected the fair value option on its notes receivable. Notes receivable are recorded at estimated fair value and accrue interest at 15%.

Past due accounts are written off for accounts and notes receivable when our efforts have been unsuccessful in collecting amounts due.

### ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories include appropriate elements of material, labor and manufacturing overhead. Inventory balances are net of reserves on slow moving or obsolete inventory based on management's review of inventories on hand compared to estimated future usage and sales, technological changes and product pricing.

### ***Business Combinations***

The Company uses the acquisition method of accounting for acquired businesses. Under the acquisition method, the financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. As a result, in the case of significant acquisitions, the Company normally obtains the assistance of third-party valuation specialists in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While management believes those expectations and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

### ***Intangible Assets***

The Company evaluates its intangible assets for impairment when there is evidence that events or circumstances indicate that the carrying amount of these assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values. Significant judgments and assumptions are required in the impairment evaluations.

### ***Goodwill***

Goodwill is not amortized and is tested for impairment at least annually, or whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. The annual impairment test is performed as of December 31 each year. Significant judgment is involved in determining if an indicator of impairment has occurred. The Company may consider indicators such as deterioration in general economic conditions, adverse changes in the markets in which the reporting unit operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill.

The Company may first review for goodwill impairment by assessing qualitative factors to determine whether any impairment may exist. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative two-step test is required; otherwise, no further testing is required. However, the Company also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test. Under the first step of the quantitative test, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds its carrying value, step two is not performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two of the quantitative impairment test (measurement) is performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the fair value of the reporting unit goodwill.



Goodwill was recorded in connection with the acquisition of Peintures Elite, Inc. in 2013. A qualitative assessment was performed for the year ended December 31, 2018 and it was determined that no events had occurred since the acquisition that would indicate an impairment was more likely than not.

### ***Property, Plant and Equipment***

Significant expenditures for the replacement or expansion of property, plant and equipment are capitalized. Depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. For financial reporting purposes, assets are depreciated over the estimated useful lives of 20 years for buildings and improvements, the lesser of the lease term or the estimated useful life for leasehold improvements, 3 to 10 years for machinery and equipment, 7 years for furniture and fixtures and 3 years for computers and accessories. The Company generally uses accelerated methods of depreciation for income tax purposes. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of property, plant and equipment is based on management's estimates of future undiscounted cash flows and these estimates may vary due to a number of factors, some of which may be outside of management's control. To the extent that the Company is unable to achieve management's forecasts of future income, it may become necessary to record impairment losses for any excess of the net book value of property, plant and equipment over their fair value.

The Company incurs maintenance costs on all of its major equipment. Repair and maintenance costs are expensed as incurred.

### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. The Company uses an estimate of its annual effective rate at each interim period based on the facts and circumstances at the time while the actual effective rate is calculated at year-end. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing whether the deferred tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's uncertain tax positions are evaluated in a two-step process, whereby 1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position

and 2) for those tax positions that meet the more likely than not recognition threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement with the related tax authority. The Company accrues interest and penalties related to uncertain tax positions in the Consolidated Statements of Operations as income tax expense.

### ***Other Taxes***

Sales taxes assessed by governmental authorities, including sales, use and excise taxes, are recorded on a net basis. Such taxes are excluded from revenues and are shown as a liability on the balance sheet until remitted to the appropriate taxing authorities.

### ***Research and Development***

Research and development related costs are charged to operations in the period incurred. Such costs amounted to \$0.1 million for each of the years ended December 31, 2018 and 2017.

***Advertising Costs***

Advertising and promotional costs are expensed as incurred and amounted to approximately \$0.3 million and \$0.6 million for the years ended December 31, 2018 and 2017, respectively.

***Fair Value of Financial and Derivative Instruments***

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

Level 1 inputs to the valuation techniques are quoted prices in active markets for identical assets or liabilities

Level 2 inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

Level 3 inputs to the valuation techniques are unobservable for the assets or liabilities

The following tables present the Company's financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of December 31, 2018 and 2017.

Fair values measured on a recurring basis at December 31, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$6,698	\$ -	\$-	\$6,698
Restricted cash	350	-	-	350
Notes receivable	-	-	3,965	3,965
Total	\$7,048	\$ -	\$3,965	\$11,013

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

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

Quantitative information about the Company's level 3 fair value measurements at December 31, 2018 is set forth below (dollars in thousands):

	Fair value at 12/31/18	Valuation technique	Unobservable input	Value
Notes receivable	\$ 3,965	Discounted cash flow	Default percentage	35 %
			Discount rate	18 %

During 2011, the Company entered into certain unsecured notes receivable arrangements with CDF2 Holdings, LLC pertaining to the sale and installation of digital projection equipment. The notes receivable accrue interest at a rate of 15% per annum. Interest not paid in any particular year is added to the principal and also accrues interest at 15%. The notes receivable are recorded at estimated fair value. In order to estimate the fair value, the Company reviews the financial position and estimated cash flows of the debtor of the notes receivable. The Company recorded increases to the fair value of the notes receivable of approximately \$1.2 million and \$1.1 million in other income in the consolidated statements of operations during the years ended December 31, 2018 and 2017, respectively.

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

The following table reconciles the beginning and ending balance of the Company's notes receivable at fair value (in thousands):

	2018	2017
Notes receivable balance, beginning of period	\$2,815	\$1,669
Fair value adjustment	1,150	1,146
Notes receivable balance, end of period	\$3,965	\$2,815

The Company's short-term and long-term debt is recorded at historical cost. As of December 31, 2018, the Company's long-term debt, including current maturities, had a carrying value of \$11.1 million. Based on discounted cash flows using current quoted interest rates (Level 2 of the fair value hierarchy), the estimated fair value at December 31, 2018 was \$10.8 million.

The carrying values of all other financial assets and liabilities, including accounts receivable, accounts payable, accrued expenses and short-term debt reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. Based on quoted market prices, the market value of the Company's equity method investments was \$5.5 million at December 31, 2018 (see Note 6).

All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which include non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During 2018, the Company recorded other-than-temporary impairment charges totaling \$0.7 million related to its equity method investments. During 2018 and 2017, the Company recorded impairment charges of \$2.1 million and \$0.2 million, respectively, in loss on sale or disposal of assets on the consolidated statements of operations related to groups of long-lived assets after the Company determined the carrying amount of the assets was not recoverable, and adjusted the carrying amount of the related assets to \$0.

*Loss Per Common Share*

Basic loss per share has been computed on the basis of the weighted average number of shares of common stock outstanding. Diluted earnings per share would be 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. However, because the Company reported losses in both years presented, there were no differences between average shares used to compute basic and diluted loss per share for either of the years ended December 31, 2018 and 2017.

Options to purchase 645,000 and 510,000 shares of common stock were outstanding as of December 31, 2018 and 2017, respectively, but were not included in the computation of diluted loss per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. An additional 80,855 and 141,166 common stock equivalents related to options and restricted stock units were excluded for the years ended December 31, 2018 and 2017, respectively, as their inclusion would be anti-dilutive, thereby decreasing the net losses per share.

### ***Stock Compensation Plans***

The Company recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated fair values on the date of grant. The Company uses the straight-line amortization method over the vesting period of the awards. The Company has historically issued shares upon exercise of stock options or vesting of restricted stock from new stock issuances. 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. The fair value of stock options granted is calculated using the Black-Scholes option pricing model. No stock-based compensation cost was capitalized as a part of inventory in 2018 and 2017.

### ***Post-Retirement Benefits***

The Company recognizes the overfunded or underfunded position of a defined benefit postretirement plan as an asset or liability in the balance sheet, measures the plan's assets and its obligations that determine its funded status as of each balance sheet date and recognizes the changes in the funded status through comprehensive income (loss) in the year in which the changes occur.

### ***Foreign Currency Translation***

For the Company's foreign subsidiary, the environment in which the business conducts operations is considered the functional currency, generally the local currency. The assets and liabilities of the foreign subsidiary are translated into the United States dollar at the foreign exchange rates in effect at the end of the period. Revenue and expenses of the Company's foreign subsidiary are translated using an average of the foreign exchange rates in effect during the period. Translation adjustments are not included in determining net earnings but are presented in comprehensive loss within the consolidated statements of comprehensive loss. Transaction gains and losses that arise from foreign exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the consolidated statement of operations as incurred. If the Company disposes of its investment in a foreign entity, any gain or loss on currency translation balance recorded in accumulated other comprehensive income is recognized as part of the gain or loss on disposition.

### ***Warranty Reserves***

In most instances, digital products are covered by the manufacturing firm's warranty; however, for certain customers the Company may grant warranties in excess of the manufacturer's warranty. In addition, the Company provides

warranty coverage on screens it manufactures. The Company accrues for these costs at the time of sale. The following table summarizes warranty activity for the two years ended December 31 (in thousands):

	2018	2017
Warranty accrual at beginning of period	\$521	\$645
Charged to expense	208	309
Claims paid, net of recoveries	(349)	(462)
Foreign currency adjustment	(30 )	29
Warranty accrual at end of period	\$350	\$521

### *Contingencies*

The Company accrues for contingencies when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Company's estimates are based on currently available facts and its estimates of the ultimate outcome or resolution. Actual results may differ from the Company's estimates resulting in an impact, positive or negative, on earnings.



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

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

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

### ***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which was further clarified by ASU 2018-11, “Leases – Targeted Improvements,” issued in July 2018. ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases, with a term greater than twelve months, on its balance sheet. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, and initially required a modified retrospective transition method under which entities would initially apply Topic 842 at the beginning of the earliest period presented in the financial statements. ASU 2018-11 added an additional optional transition method allowing entities to apply Topic 842 as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company will adopt ASU 2016-02 using the optional transition method from ASU 2018-11 as of January 1, 2019. We have made significant progress in assessing the impact of the standards and planning for their adoption. Upon adoption, the Company expects to record a balance sheet gross-up of approximately \$4.7 million to record operating lease liabilities and related right-of-use assets. In addition, the sale-leaseback of Convergent’s Alpharetta, Georgia office facility described in Note 11, which did not qualify for sale-leaseback accounting under the previous

lease accounting standard, qualified for sale-leaseback accounting under Topic 842, as Topic 842 eliminated the concept of continuing involvement by the seller-lessee precluding sale-leaseback accounting. The Company is completing its analysis of the impact of ASU 2016-02 on the sale-leaseback and expects to record a cumulative effect adjustment increasing retained earnings, derecognize the property and equipment related to the sale-leaseback and derecognize the sale-leaseback financing liability component of long-term debt current reflected on the Company's consolidated balance sheet. The Company also expects to record new operating right of use assets and liabilities for the sale-leaseback under Topic 842.

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

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

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

#### 4. Inventories

Inventories consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Raw materials and components	\$ 1,422	\$ 1,376
Work in process	-	362
Finished goods	2,068	3,083
	\$ 3,490	\$ 4,821

The inventory balances are net of reserves of approximately \$1.4 million and \$1.8 million as of December 31, 2018 and 2017, respectively.

#### 5. Property, Plant and Equipment

Property, plant and equipment include the following (in thousands):

	December 31, 2018	December 31, 2017
Land	\$ 1,597	\$ 1,601
Buildings and improvements	9,231	9,277
Digital signage equipment	5,252	305
Machinery and other equipment	5,147	4,709
Office furniture and fixtures	3,509	3,714
Total properties, cost	24,736	19,606
Less: accumulated depreciation	(9,561 )	(8,780 )
Net property, plant and equipment	\$ 15,175	\$ 10,826

Depreciation expense approximated \$1.9 million and \$1.6 million for the years ended December 31, 2018 and 2017, respectively.

## 6. Equity Method Investments

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

Entity	December 31, 2018		December 31, 2017			
	Carrying Amount	Economic Interest		Carrying Amount	Economic Interest	
1347 Property Insurance Holdings, Inc.	\$7,738	17.3	%	\$7,710	17.4	%
Itasca Capital, Ltd.	3,429	32.3	%	5,870	32.3	%
BK Technologies, Inc.	-	0.0	%	4,473	8.3	%
Total	\$11,167			\$18,053		

The following summarizes the (loss) income of equity method investees reflected in the Consolidated Statement of Operations (in thousands):

Entity	Year Ended December 31,	
	2018	2017
1347 Property Insurance Holdings, Inc.	\$237	\$(177 )
Itasca Capital, Ltd.	(1,232)	2,073
BK Technologies, Inc.	443	62
Total	\$(552 )	\$1,958

1347 Property Insurance Holdings, Inc. (“PIH”) is a publicly traded company that provides property and casualty insurance in the States of Louisiana, Texas and Florida. The Company’s Chief Executive Officer is chairman of the board of directors of PIH, and controls entities that, when combined with the Company’s ownership in PIH, own greater than 20% of PIH, providing the Company with significant influence over PIH, but not controlling interest. The Company did not receive dividends from PIH in 2018 or 2017. Based on quoted market prices, the market value of the Company’s ownership in PIH was \$4.2 million at December 31, 2018.

Itasca Capital, Ltd. (“Itasca”) is a publicly traded Canadian company that is an investment vehicle seeking transformative strategic investments. The Company’s Chief Executive Officer is chairman of the board of directors of Itasca. This board seat, combined with the Company’s 32.3% ownership of Itasca, provide the Company with significant influence over Itasca, but not controlling interest. The Company received a dividend of \$0.8 million from Itasca during 2018 and did not receive any dividends from Itasca during 2017. Based on quoted market prices, the market value of the Company’s ownership in Itasca was \$1.3 million at December 31, 2018. A \$0.7 million other-than-temporary impairment charge for Itasca is included in equity method investment loss on the consolidated

statement of operations for the year ended December 31, 2018.

BK Technologies, Inc. (formerly known as RELM Wireless Corporation) (“BKTI”) is a publicly traded company that designs, manufactures and markets two-way land mobile radios, repeaters, base stations and related components and subsystems. Due to the Company’s significant influence, but not controlling interest, in BKTI, the Company’s investment in BKTI was accounted for using the equity method. On September 9, 2018, the Company entered into an agreement with Fundamental Global Investors, LLC (“FGI”), a related party, where the Company sold 1,147,087 shares of common stock of BKTI to FGI for a price of \$3.95 per share and total proceeds of approximately \$4.5 million. The per share transaction price of \$3.95 represented the immediately preceding closing price on the NYSE American stock exchange, and the transaction was approved by the Company’s Audit Committee, comprised of only independent directors. The Company recorded a gain on the sale of the equity method investment of \$0.8 million within equity method investment income on the consolidated statement of operations for the year ended December 31, 2018. Prior to the sale of the BKTI common stock, the Company received dividends of \$0.1 million and \$0.3 million during the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Company's retained earnings included undistributed earnings from equity method investees of \$0.3 million.

The summarized financial information presented below reflects the aggregated financial information of all significant equity method investees as of and for the twelve months ended September 30 of each year or portion of those twelve months the Company owned its investment, consistent with the Company's recognition of the results of its equity method investments on a one quarter lag. The summarized financial information is presented only for the periods when the Company owned its investment. Because PIH does not present a classified balance sheet, major components of its assets and liabilities are presented instead of current and noncurrent assets and liabilities.

For the twelve months ended September 30,	2018	2017
Revenue	\$53,395	\$72,325
Operating income	2,738	1,021
Net income	(462 )	7,953

As of September 30,	2018	2017
Cash and cash equivalents - PIH	\$30,024	\$25,679
Investments - PIH	80,918	49,702
Reinsurance recoverables - PIH	10,598	25,327
Other assets - PIH	22,928	14,815
Current assets - BKTI and Itasca	1,397	33,359
Noncurrent assets - BKTI and Itasca	11,693	30,005
Total assets - PIH, BKTI and Itasca	\$157,558	\$178,887
Loss and loss adjustment expense reserves - PIH	\$14,172	\$22,091
Unearned premium reserves - PIH	49,964	32,170
Redeemable preferred shares - PIH	-	2,744
Other liabilities - PIH	18,651	12,920
Current liabilities - BKTI and Itasca	98	8,857
Noncurrent liabilities - BKTI and Itasca	82,885	452
Total liabilities - PIH, BKTI and Itasca	\$165,770	\$79,234

## 7. Intangible Assets

Intangible assets consisted of the following at December 31, 2018 (dollars in thousands):

Useful life	Gross	Accumulated Amortization	Net
----------------	-------	-----------------------------	-----

(Years)

Intangible assets not yet subject to amortization:				
Software in development		\$ 119	\$ -	\$ 119
Intangible assets subject to amortization:				
Software in service	5	2,188	(595)	) \$1,593
Product formulation	10	447	(364)	) \$83
Total		\$2,754	\$ (959)	) \$1,795



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

	Useful life (Years)	Gross	Accumulated Amortization	Net
Intangible assets not yet subject to amortization:				
Software in development		\$ 1,243	\$ -	\$ 1,243
Intangible assets subject to amortization:				
Software in service	5	3,191	(597 )	2,594
Product formulation	10	486	(351 )	135
Total		\$4,920	\$ (948 )	\$3,972

Intangible assets, other than goodwill, with definite lives are amortized over their useful lives. The Company recorded amortization expense relating to intangible assets of \$0.6 million during both of the years ended December 31 2018 and 2017. During 2018, the Company recorded impairment charges of \$2.1 million related to abandoned software in service within loss on disposal of assets on the consolidated statements of operations.

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

2019	\$485
2020	476
2021	438
2022	221
2023	56
Thereafter	-
Total	\$1,676

## 8. Goodwill

All of the Company's goodwill is related to the Strong Cinema segment. The following represents a summary of changes in the Company's carrying amount of goodwill (in thousands):

Balance as of December 31, 2017	\$952
Foreign currency translation	(77 )
Balance as of December 31, 2018	\$875



**9. Accrued Expenses**

The major components of current accrued expenses are as follows (in thousands):

	December 31, 2018	December 31, 2017
Employee related	\$ 1,431	\$ 1,388
Legal and professional fees	343	222
Lease expenses	150	78
Warranty obligation	350	521
Interest and taxes	374	567
Post-retirement benefit obligation	14	18
Other	120	88
Total	\$ 2,782	\$ 2,882

The major components of long-term accrued expenses are as follows (in thousands):

	December 31, 2018	December 31, 2017
Lease expenses	\$ 114	\$ 109
Post-retirement benefit obligation	140	97
Total	\$ 254	\$ 206

**10. Income Taxes**

Loss from continuing operations before income taxes consists of (in thousands):

	2018	2017
United States	\$(16,581)	\$(11,588)
Foreign	6,681	11,414
	\$(9,900 )	\$(174 )

Income tax expense (benefit) attributable to loss from continuing operations consists of (in thousands):

	2018	2017
Federal:		
Current	\$-	\$-
Deferred	-	-
Total	-	-
State:		
Current	66	8
Deferred	-	-
Total	66	8
Foreign:		
Current	2,609	2,348
Deferred	(248 )	1,062
Total	2,361	3,410
	\$2,427	\$3,418

Income tax expense attributable to loss from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate to pretax loss from continuing operations as follows (in thousands):

	2018	2017
Expected federal income tax benefit	\$(2,079)	\$(59 )
Effect of federal rate change	-	5,341
Effect of change to territorial system	-	(4,071)
State income taxes, net of federal benefit	52	(260 )
Foreign tax rate differential	381	(743 )
Change in state tax rate	(139 )	(67 )
Change in valuation allowance	3,859	3,321
GILTI inclusion	597	-
Return to provision	(490 )	(49 )
Foreign dividend inclusion	128	-
Other	118	5
Total	\$2,427	\$3,418

Deferred tax assets and liabilities were comprised of the following (in thousands):

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Deferred revenue	\$ 228	\$ 230
Non-deductible accruals	1,811	206
Inventory reserves	370	451
Stock compensation expense	325	199
Warranty reserves	93	138
Uncollectible receivable reserves	456	458
Net operating losses	10,658	9,204
Fair value adjustment to notes receivable	978	147
Tax credits	2,084	1,642
Depreciation and amortization	-	79
Disallowed interest expense	394	-
Other	129	170
Total deferred tax assets	17,526	12,924
Valuation allowance	(16,177 )	(12,317 )
Net deferred tax assets after valuation allowance	1,349	607
Deferred tax liabilities:		
Depreciation and amortization	1,601	923
Cash repatriation	2,012	1,884
Equity in income of equity method investments	252	610
Other	-	6
Total deferred tax liabilities	3,865	3,423
Net deferred tax liability	\$(2,516 )	\$(2,816 )

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 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 \$16.2 million and \$12.3 million should be recorded against the Company's U.S. tax jurisdiction deferred tax assets as of December 31, 2018 and 2017, respectively.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was signed into law in the United States. The law includes significant changes to the United States corporate income tax system, including a federal corporate rate reduction and the transition to a territorial tax system. The 2017 Tax Act required taxpayers to calculate a one-time transition tax based on the deemed repatriation of undistributed earnings of foreign subsidiaries. The Company included this repatriation tax and changes to the existing deferred tax balances in the 2017 financial

statements. Provisional amounts were originally recorded for the repatriation and subsequently updated through the filing of the 2017 tax return. After applying foreign tax credits, the Company calculated its transition tax liability to be zero. The Company has recorded a deferred tax liability related to withholding tax on earnings from its Canadian subsidiary of \$2.0 million and \$1.9 million at December 31, 2018 and 2017, respectively.

The decrease in the U.S. Federal corporate income tax rate resulted in a decrease in the future expected benefit of the Company's U.S. deferred tax assets. However, due to the full valuation allowance recorded against the U.S. tax jurisdiction deferred tax assets as of December 31, 2017, the net income tax expense recorded related to the change in corporate tax rate was zero.

During the 2018 fiscal year, numerous provisions of the 2017 Tax Act went into effect. The Company evaluated these provisions and incorporated the estimated impact in the 2018 income tax expense. These provisions include, but are not limited to, reductions in the corporate income tax rate with regard to current income taxes, limitations with regard to interest expense that disallow a portion of interest expense that is carried forward with no future expiration, changes to the deductibility of meals and entertainment, changes to bonus depreciation and a reduced tax rate on foreign export sales.

An additional provision of the 2017 Tax Act is the implementation of the Global Intangible-Low Taxed Income Tax, or "GILTI." The Company has elected to account for the impact of GILTI in the period in which the tax actually applies to the Company. During fiscal 2018, the Company incurred an estimated \$2.8 million of additional taxable income as a result of this provision. This increase of taxable income was incorporated into the overall net operating loss and valuation allowance.

The Company's net operating loss carryforwards for federal and state tax purposes total approximately \$42.8 million and \$40.2 million, respectively, at December 31, 2018, expiring at various times in 2033 through 2037 for state net operating losses and federal losses generated through December 31, 2017. As a result of the 2017 Tax Act, all net operating losses that are generated beginning January 1, 2018 and beyond will carryforward indefinitely with no carryback. The Company has foreign tax credit carryforwards of approximately \$2.1 million at December 31, 2018 that expire at various times in 2024 through 2026. Utilization of these losses may be limited in the event certain changes in ownership occur.

The Company is subject to possible examinations not yet initiated for federal purposes for the fiscal years 2015, 2016 and 2017. In most cases, the Company is subject to possible examinations for state or local jurisdictions based on the particular jurisdiction's statute of limitations.

Estimated amounts related to underpayment of income taxes, including interest and penalties, are classified as a component of income tax expense in the consolidated statements of operations and were not material for the years ended December 31, 2018 and 2017. Amounts accrued for estimated underpayment of income taxes were zero as of December 31, 2018 and 2017.

**11. Debt**

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

	December 31, 2018	December 31, 2017
Short-term debt:		
Strong/MDI installment loan	\$ 3,152	\$ -
Revolving line of credit	-	500
Current portion of long-term debt	1,094	65
Total short-term debt	4,246	565
Long-term debt:		
Sale-leaseback financing	6,769	-
Equipment term loans	4,398	-
Mortgage term loan	-	1,968
Total principal balance of long-term debt	11,167	1,968
Less: current portion	(1,094 )	(65 )
Less: unamortized debt issuance costs	(20 )	(33 )
Total long-term debt	10,053	1,870
Total short-term and long-term debt	\$ 14,299	\$ 2,435

On May 22, 2018, the Company's subsidiary, Convergent, entered into an installment payment agreement with an equipment financing company in order to purchase media players and related equipment in an aggregate amount of up to approximately \$4.4 million. Installment payments under each contract for purchase of the equipment are due monthly for a period of 60 months. The financing provided in the agreement is secured by the equipment, and the obligations under the agreement are guaranteed by the Company. The borrowings under the agreement are recorded as long-term debt on the Company's consolidated balance sheet. In December 2018, Convergent entered into additional installment payment agreements with other financing companies in order to purchase additional media players and related equipment. This round of financing totaled approximately \$0.6 million. Installment payments under each contract are due monthly for a period of 60 months. The financing under the agreements is secured by the equipment. The borrowings under the agreements are recorded as long-term debt on the Company's consolidated balance sheet. Collectively, the Company had \$4.4 million of outstanding borrowings under equipment term loan agreements at December 31, 2018, which bear interest at a weighted-average fixed rate of 6.8%.

On June 29, 2018, the Company and Convergent completed a sale-leaseback of Convergent's Alpharetta, Georgia office facility. Convergent sold the Alpharetta facility for \$7.0 million in cash and the Company simultaneously entered into a 10-year leaseback of the facility for rent in the amount of \$600,000 per year, escalating at the rate of 2% per year. Due to the Company's continuing involvement in the building, the transaction was accounted for as a financing rather than a normal leaseback. The net proceeds from the transaction were recorded as a financing liability in long-term debt on the Company's consolidated balance sheet. Upon closing, the Company's mortgage term loan and revolving line of credit that previously were secured by the Alpharetta facility were repaid, and the related debt



agreement was terminated. In addition, the Company issued warrants to the buyer to purchase up to 100,000 shares of Company stock, consisting of warrants to purchase 25,000 shares at each of \$10, \$12, \$14, and \$16 purchase prices per share. The warrants have a 10-year maturity. The Company recorded the aggregate \$81 thousand fair value of the warrants as additional paid-in capital. The warrants are recorded at grant date fair value, which was calculated based on a Black-Scholes valuation model using the following assumptions:

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

On September 5, 2017, the Company's Canadian subsidiary, Strong/MDI, entered into a demand credit agreement with a bank consisting of a revolving line of credit for up to CDN\$3.5 million subject to a borrowing base requirement, a 20-year installment loan for up to CDN\$6.0 million and a 5-year installment loan for up to CDN\$500,000. Amounts outstanding under the line of credit are payable on demand and will bear interest at the prime rate established by the lender. Amounts outstanding under the installment loans bear interest at the prime rate plus 0.5% and are payable in monthly installments, including interest, over their respective borrowing periods. The lender may also demand repayment of the installment loans at any time. The Strong/MDI credit facilities are secured by a lien on Strong/MDI's Quebec, Canada facility and substantially all of Strong/MDI's assets. The credit agreement requires Strong/MDI to maintain a ratio of liabilities to "effective equity" (tangible stockholders' equity, less amounts receivable from affiliates and equity method investments) not exceeding 2 to 1, a current ratio (excluding amounts due from related parties) of at least 1.5 to 1 and minimum "effective equity" of CDN\$8.0 million. The Company borrowed CDN\$4.5 million on the 20-year installment loan during 2018. There was CDN\$4.3 million of principal outstanding on the 20-year installment loan as of December 31, 2018, which bears variable interest at 4.53%. Strong/MDI was in compliance with its debt covenants as of December 31, 2018.

Scheduled repayments are as follows for the Company's long-term debt outstanding as of December 31, 2018 (in thousands):

2019	\$ 1,094
2020	1,177
2021	1,267
2022	1,364
2023	1,017
Thereafter	5,248
Total	\$ 11,167

## 12. Stock Compensation

The Company recognizes compensation expense for all stock-based payment awards made to employees and directors based on estimated grant date fair values. Stock-based compensation expense included in selling and administrative expenses approximated \$0.8 million and \$0.7 million for the years ended December 31, 2018 and 2017, respectively.

The Company's 2017 Omnibus Equity Compensation Plan ("2017 Plan") was approved by the Company's stockholders and provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, performance units and other stock-based awards and cash-based awards. Vesting terms vary with each grant and may be subject to vesting upon a "change in control" of the Company. The total number of shares authorized for issuance under the 2017 Plan is 1,371,189 shares, with 1,049,156 shares remaining available for grant at December 31, 2018.

*Options*

The Company granted a total of 437,500 and 435,000 options during the years ended December 31, 2018 and 2017, respectively. Options to purchase shares of common stock were granted with exercise prices equal to the fair value of the common stock on the date of the grant.

The weighted average grant date fair value of stock options granted during the years ended December 31, 2018 and 2017 was \$1.72 and \$2.42, respectively. 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:

	2018	2017
Expected dividend yield at date of grant	0.00 %	0.00 %
Risk-free interest rate	2.53 %	1.99 %
Expected stock price volatility	35.93 %	34.85 %
Expected life of options (in years)	6.0	6.0

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

The following table summarizes stock option activity for 2018:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2017	930,300	\$ 5.63	8.7	\$ 150
Granted	437,500	4.42		
Exercised	-	-		
Forfeited	(344,500)	5.62		
Expired	(156,300)	4.95		
Outstanding at December 31, 2018	867,000	\$ 5.06	8.3	\$ -
Exercisable at December 31, 2018	189,000	\$ 5.08	7.3	\$ -

The aggregate intrinsic value in the table above represents the total that would have been received by the option holders if all in-the-money options had been exercised and sold on the date indicated. No options were exercised in 2018. The intrinsic value of options exercised during the year ended December 31, 2017 amounted to \$45 thousand.

As of December 31, 2018, 678,000 stock option awards were non-vested. Unrecognized compensation costs related to all stock options outstanding amounted to \$1.1 million at December 31, 2018, which is expected to be recognized over a weighted-average period of 3.5 years.

*Restricted Stock*

The Company awarded a total of 277,498 and 115,835 restricted stock units and restricted shares during the years ended December 31, 2018 and 2017, respectively. 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. The weighted average grant date fair value of restricted shares and restricted stock units granted during the twelve month periods ended December 31, 2018 and 2017 was \$3.33 and \$6.58, respectively. The fair value of restricted stock awards that vested during the years ended December 31, 2018 and 2017 was \$0.3 million and \$0.4 million, respectively.

As of December 31, 2018, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately \$0.8 million, which is expected to be recognized over a weighted average period of 1.7 years.

The following table summarizes restricted share activity for 2018:

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

The following table summarizes restricted stock unit activity for 2018:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	35,835	\$ 6.45
Granted	277,498	3.33
Shares vested	(35,835 )	6.45
Shares forfeited	-	-
Non-vested at December 31, 2018	277,498	\$ 3.33

### 13. Compensation and Benefit Plans

#### *Retirement Plan*

The Company sponsors a defined contribution 401(k) plan (the “Plan”) for all eligible employees. Pursuant to the provisions of the Plan, employees may defer up to 100% of their compensation. The Company will match 50% of the amount deferred up to 6% of their compensation. The contributions made to the Plan by the Company were approximately \$0.4 million for each of the years ended December 31, 2018 and 2017.

### 14. Leases

The Company and its subsidiaries lease plant and office facilities, autos and equipment under operating leases expiring through 2022. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business. Rent expense under operating lease agreements amounted to approximately \$0.9 million and \$0.5 million for the years ended December 31, 2018 and 2017, respectively. The Company also has capital leases for computer equipment and digital signage equipment, which are recorded as capital lease obligations on the consolidated balance sheets.

The Company's future minimum lease payments are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
2019	\$219	\$ 1,740
2020	139	1,537
2021	139	1,420
2022	139	1,081
2023	128	-
Thereafter	4	-
Total minimum lease payments	768	\$ 5,778
Less: Amount representing interest	(181)	
Present value of minimum lease payments	587	
Less: Current maturities	(160)	
Capital lease obligations, net of current portion	\$427	

## 15. Contingencies and Concentrations

### *Concentrations*

The Company's top ten customers accounted for approximately 46% of 2018 consolidated net revenues, including one Strong Cinema customer that individually accounted for 14% of 2018 consolidated net revenues. Trade accounts receivable from the top ten customers represented approximately 45% of net consolidated receivables at December 31, 2018.

### *Litigation*

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

## 16. Business Segment Information



The Company has three primary operating segments: Strong Cinema, Convergent and Strong Outdoor. During the fourth quarter of 2018, the Company decided to divide its former Digital Media segment into separate Convergent and Strong Outdoor segments. All prior periods have been recast in our segment reporting to reflect the current segment organization. The Strong Cinema segment provides a full range of product and service solutions primarily for the theater exhibition industry, including a wide spectrum of premier audio-visual products and accessories such as digital projectors, state of the art projection screens, servers, library management systems, menu boards, flat panel displays, and sound systems, as well as network monitoring and on-site service for cinema equipment. The Convergent segment delivers solutions and services across two primary markets: digital out-of-home and enterprise video. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing solutions and services to our customers. The Strong Outdoor segment provides taxi-top advertising services on over 3,500 New York City taxicabs.

## Summary by Business Segments

	Year ended December 31,	
	2018	2017
	(in thousands)	
Net revenues		
Strong Cinema	\$44,361	\$48,938
Convergent	17,210	24,348
Strong Outdoor	3,632	-
Other	308	175
Total segment net revenues	65,511	73,461
Eliminations	(822 )	(815 )
Total net revenues	64,689	72,646
Gross profit (loss)		
Strong Cinema	14,710	14,919
Convergent	2,061	3,840
Strong Outdoor	(4,843 )	-
Other	308	175
Total segment gross profit	12,236	18,934
Eliminations	(57 )	-
Total gross profit	12,179	18,934
Operating income (loss)		
Strong Cinema	10,407	10,678
Convergent	(4,483 )	(3,944 )
Strong Outdoor	(6,070 )	-
Other	(309 )	(340 )
Total segment operating (loss) income	(455 )	6,394
Unallocated general and administrative expenses	(9,076 )	(9,208 )
Unallocated loss on disposal of assets	(818 )	-
Loss from operations	(10,349)	(2,814 )
Other income, net	1,001	682
Loss before income taxes and equity method investment income	\$(9,348 )	\$(2,132 )

	Year ended December 31, 2018 2017 (in thousands)	
Capital expenditures:		
Strong Cinema	\$639	\$810
Convergent	1,056	1,909
Strong Outdoor	286	-
Unallocated	3	556
Total capital expenditures	\$1,984	\$3,275
Depreciation, amortization and impairment:		
Strong Cinema	\$892	\$912
Convergent	2,904	1,000
Strong Outdoor	267	-
Unallocated	1,091	269
Total depreciation, amortization and impairment	\$5,154	\$2,181

	December 31, 2018 2017 (In thousands)	
Identifiable assets		
Strong Cinema	\$27,009	\$27,358
Convergent	14,024	13,603
Strong Outdoor	3,454	-
Corporate assets	15,150	18,053
Total	\$59,637	\$59,014

### Summary by Geographical Area

	Year ended December 31, 2018 2017 (In thousands)	
Net revenue		
United States	\$51,950	\$57,479
Canada	5,055	5,535
China	2,126	5,031
Mexico	2,910	1,736
Latin America	803	1,557
Europe	1,096	681
Asia (excluding China)	518	274
Other	231	353
Total	\$64,689	\$72,646



(In thousands)	December 31,	
	2018	2017
Identifiable assets		
United States	\$42,780	\$37,230
Canada	16,857	21,784
Total	\$59,637	\$59,014

Net revenues by business segment are to unaffiliated customers, except to the extent of certain revenues from intersegment services provided by the Strong Cinema segment to the Convergent segment, which are represented by the eliminations in the segment operating results table above. Identifiable assets by geographical area are based on location of facilities. Net sales by geographical area are based on destination of sales.

## 17. Related Party Transactions

Fundamental Global Investors, LLC and certain of its affiliates (collectively, "FGI") hold approximately 36.1% of the Company's outstanding shares of common stock as of December 31, 2018. Mr. D. Kyle Cerminara, the Chief Executive Officer, Co-Founder and Partner of Fundamental Global Investors, LLC, serves as the Company's Chairman and Chief Executive Officer. The Company's purchases of the equity securities that comprise its equity method investments were made in companies in which FGI has an ownership interest. The independent members of the Board of Directors approved these purchases and the Company made no payments to FGI related to these purchases. On September 9, 2018, the Company entered into an agreement with FGI where the Company sold 1,147,087 shares of common stock of BKTl to FGI for a price of \$3.95 per share and total proceeds of approximately \$4.5 million. The per share transaction price of \$3.95 represented the immediately preceding closing price on the NYSE American stock exchange, and the transaction was approved by the Company's Audit Committee, comprised of only independent directors. See Note 6 for further information on the Company's equity method investments.

***Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

***Item 9A. Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, 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, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), and internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

**Internal Control over Financial Reporting**

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rule 13a-15(f). 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 Company's internal control over financial reporting. The Company's management used the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to perform this evaluation. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting for the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Item 9B. Other Information***

None.

**PART III**

***Item 10. Directors, Executive Officers and Corporate Governance***

The information required by this item will be contained in the “Board of Directors,” “Executive Officers,” “Compliance with Section 16(a) of the Exchange Act,” and “Board Committees—Audit Committee” sections of the definitive proxy statement, to be filed in connection with the 2019 Annual Meeting of Stockholders, and is incorporated herein by reference.

Our board of directors has adopted the Code of Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics is posted on our Internet website, [www.ballantynestrong.com/investors](http://www.ballantynestrong.com/investors), under the “Corporate Governance” tab, and is available free of charge, upon request to Corporate Secretary, 11422 Miracle Hills Drive, Suite 300, Omaha, NE 68154; telephone number: (402) 453-4444.

Any amendment to, or waiver from, the Code of Ethics applicable to our directors and executive officers will be disclosed in a current report on Form 8-K within four business days following the date of the amendment or waiver unless the rules of the NYSE American then permit website posting of such amendments and waivers, in which case we would post such disclosures on our Internet website.

### ***Item 11. Executive Compensation***

The information required by this item will be contained in the “Executive Compensation” and “Director Compensation” sections of the definitive proxy statement, to be filed in connection with the 2019 Annual Meeting of Stockholders, and is incorporated herein by reference.

### ***Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table sets forth information regarding our equity compensation plans as of December 31, 2018.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,144,498	(1) \$ 5.06	1,049,156
Equity compensation plans not approved by security holders	-	-	-
Total	1,144,498	\$ 5.06	1,049,156

(1) Includes 427,000 securities to be issued upon exercise of outstanding options under our 2010 Long-Term Incentive Plan; and 440,000 securities to be issued upon exercise of outstanding options and 277,498 securities to



be issued upon vesting of restricted stock units under our 2017 Omnibus Equity Compensation Plan.  
(2) All shares available for future issuance are under the 2017 Omnibus Equity Compensation Plan.

The information regarding our largest holders and ownership of our securities by our management and directors will be contained in the “Security Ownership of Certain Beneficial Owners and Management” section of the definitive proxy statement, to be filed in connection with the 2019 annual meeting of stockholders, and is incorporated herein by reference.

***Item 13. Certain Relationships and Related Transactions, and Director Independence***

The information required by this item will be contained in the “Related Person Transaction Procedures” and “Corporate Governance – Board Independence” sections of the definitive proxy statement, to be filed in connection with the 2019 Annual Meeting of Stockholders, and is incorporated herein by reference.

***Item 14. Principal Accounting Fees and Services***

The information required by this item will be contained in the “Proposal Three – Ratification of Appointment of the Company’s Independent Auditors” and “Board Committees – Audit Committee” sections of the definitive proxy statement, to be filed in connection with the 2019 Annual Meeting of Stockholders, and is incorporated herein by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

a. The following documents are filed as part of this report on Form 10-K:

1. Consolidated Financial Statements:

An Index to the Consolidated Financial Statements is filed as a part of Item 8.

2. Exhibit list.

**EXHIBIT INDEX**

Exhibit Number	Document Description	Incorporated by Reference		Filing Date	Filed Herewith
		Form	Exhibit		
2.1+	<u>Equity Purchase Agreement, dated as of November 4, 2016, by and between Strong Westrex, Inc. and GABO Filter, Inc.</u>	8-K	2.1	November 7, 2016	
3.1	<u>Certificate of Incorporation of Ballantyne of Omaha, Inc.</u>	S-8	3.1	December 7, 2006	
3.1.1	<u>Certificate of Amendment to the Certificate of Incorporation of Ballantyne of Omaha, Inc.</u>	S-8	3.1.1	December 7, 2006	
3.1.2	<u>Certificate of Amendment to the Certificate of Incorporation of Ballantyne of Omaha, Inc.</u>	S-8	3.1.2	December 7, 2006	
3.1.3	<u>Certificate of Amendment to the Certificate of Incorporation of Ballantyne of Omaha, Inc.</u>	S-8	3.1.3	December 7, 2006	
3.1.4	<u>Certificate of Amendment of Certificate of Incorporation</u>	10-Q	3.1.4	August 7, 2009	
3.2	<u>Ballantyne of Omaha, Inc. Bylaws</u>	S-8	3.2	December 7, 2006	

3.2.1	<u>First Amendment to Bylaws of Ballantyne of Omaha, Inc.</u>	S-8	3.2.1	December 7, 2006
3.2.2	<u>Second Amendment to Bylaws of Ballantyne of Omaha, Inc.</u>	S-8	3.2.2	December 7, 2006
3.2.3	<u>Third Amendment to Bylaws of Ballantyne of Omaha, Inc.</u>	S-8	3.2.3	December 7, 2006
3.2.4	<u>Fourth Amendment to Bylaws of Ballantyne of Omaha, Inc.</u>	8-K	99.1	May 1, 2007
3.2.5	<u>Fifth Amendment to Bylaws of Ballantyne Strong, Inc.</u>	S-8	4.11	May 16, 2014

Exhibit Number	Document Description	Incorporated by Reference		Filed Date	Filed Herewith
		Form	Exhibit		
10.1	<u>Authorized Reseller Agreement, dated as of January 21, 2010, between Ballantyne Strong, Inc. and NEC Display Solutions of America, Inc.</u>	10-K	10.10	March 23, 2010	
10.2*	<u>Ballantyne Strong, Inc. 2017 Omnibus Equity Compensation Plan</u>	S-8	4.12	June 15, 2017	
10.3*	<u>Form of Stock Option Agreement under the Ballantyne Strong, Inc. 2017 Omnibus Equity Compensation Plan</u>	S-8	4.13	June 15, 2017	
10.4*	<u>Form of Restricted Share Agreement under the Ballantyne Strong, Inc. 2017 Omnibus Equity Compensation Plan</u>	S-8	4.14	June 15, 2017	
10.5*	<u>Form of Restricted Share Unit Agreement under the Ballantyne Strong, Inc. 2017 Omnibus Equity Compensation Plan</u>	S-8	4.15	June 15, 2017	
10.6*	<u>Ballantyne Strong, Inc. 2010 Long-Term Incentive Plan (as amended and restated)</u>	8-K	10.1	May 20, 2014	
10.7*	<u>Form of Stock Option Agreement under the Ballantyne Strong, Inc. 2010 Long-Term Incentive Plan</u>	8-K	10.1	November 27, 2015	
10.8*	<u>Form of Restricted Stock Agreement under the Ballantyne Strong, Inc. 2010 Long-Term Incentive Plan</u>	8-K	10.2	November 27, 2015	
10.9*	<u>Executive Employment Agreement, dated February 14, 2012, between Ballantyne Strong, Inc. and Ray F. Boegner</u>	10-Q	10.27	May 4, 2012	
10.10*	<u>Executive Employment Agreement, dated as of November 2, 2015, between Convergent Media Systems Corporation and Stephen L. Schilling</u>	8-K	10.1	November 4, 2015	
10.11*	<u>Stock Option Agreement, dated as of November 22, 2015, between Ballantyne Strong, Inc. and Stephen L. Schilling</u>	8-K	10.3	November 27, 2015	
10.12*	<u>Stock Option Agreement under Ballantyne Strong, Inc. 2010 Long-Term Incentive Plan, dated as of November 22, 2015, between Ballantyne Strong, Inc. and Stephen L. Schilling</u>	8-K	10.4	November 27, 2015	
10.13*	<u>Executive Employment Agreement, dated March 29, 2017, between Ballantyne Strong, Inc. and Lance V. Schulz</u>	8-K	10.1	March 29, 2017	



Exhibit Number	Document Description	Incorporated by Reference		Filed Date	Filed Herewith
		Form	Exhibit		
10.14*	<u>Consulting Agreement, dated November 16, 2018, by and between Ballantyne Strong, Inc. and Lance V. Schulz</u>	8-K	10.1	November 20, 2018	
10.15*	<u>Executive Employment Agreement, dated November 7, 2018, between Ballantyne Strong, Inc. and Mark D. Roberson</u>	8-K	10.1	November 7, 2018	
10.16	<u>Term Loan Business Loan Agreement, dated April 27, 2017, by and between Convergent Media Systems Corporation, as Borrower, and blueharbor bank, as Lender</u>	8-K	10.1	May 3, 2017	
10.17	<u>Term Loan Promissory Note, dated April 27, 2017, by and between Convergent Media Systems Corporation, as Borrower, and blueharbor bank, as Lender</u>	8-K	10.2	May 3, 2017	
10.18	<u>Line of Credit Business Loan Agreement, dated April 27, 2017, by and between Convergent Media Systems Corporation, as Borrower, and blueharbor bank, as Lender</u>	8-K	10.3	May 3, 2017	
10.19	<u>Credit Agreement, dated April 27, 2017, by and between Convergent Media Systems Corporation, as Borrower, and blueharbor bank, as Lender</u>	8-K	10.4	May 3, 2017	
10.20	<u>Note Modification Agreement, dated as of April 18, 2018, by and between Convergent Media Systems Corporation, as Borrower, and blueharbor bank, as Lender</u>	8-K	10.1	April 24, 2018	
10.21	<u>Master Equipment Lease Agreement between Huntington Technology Finance, Inc. and Convergent Media Systems Corporation</u>	8-K	10.1	June 27, 2017	
10.22	<u>Progress Payment Note and Reimbursement Agreement between Convergent Media Systems Corporation and Huntington Technology Finance, Inc., effective as of June 22, 2017</u>	8-K	10.2	June 27, 2017	
10.23	<u>Credit Agreement, dated as of May 15, 2018, between Canadian Imperial Bank of Commerce and Strong/MDI Screen Systems, Inc.</u>	10-Q	10.6	August 8, 2018	
10.24	<u>Contract of Sale, dated April 27, 2018, by and between Convergent Media Systems Corporation, as Seller, and Metrolina Alpharetta, LLC, as Buyer</u>	8-K	10.1	May 1, 2018	

Exhibit Number	Document Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.25	<u>Lease Agreement, between Metrolina Alpharetta, LLC, as Landlord, and Ballantyne Strong, Inc., as Tenant</u>	10-Q	10.3	August 8, 2018	
10.26	<u>Form of Warrant, to be issued by Ballantyne Strong, Inc.</u>	8-K	10.3	May 1, 2018	
10.27	<u>Master Installment Payment Agreement, dated as of May 22, 2018, by and between Convergent Media Systems Corporation, as Borrower, and NEC Financial Services, LLC, as Lender</u>	8-K	10.1	May 29, 2018	
10.28	<u>Letter Agreement, dated as of September 9, 2018, by and between Ballantyne Strong, Inc. and Fundamental Global Investors, LLC</u>	8-K	10.1	September 12, 2018	
21	Subsidiaries of the Registrant are as follows:				
	<b>Name</b>	<b>Jurisdiction of Incorporation</b>			
	a. Strong Westrex, Inc.	Nebraska			
	b. Strong Technical Services, Inc.	Nebraska			
	c. Strong/MDI Screen Systems, Inc.	Canada			
	d. Convergent Corporation	Georgia			
	e. Convergent Media Systems Corporation	Georgia			
	f. StrongVest Global Advisors, LLC	Delaware			
	g. Strong Digital Media, LLC	Delaware			
23	<u>Consent of BDO USA, LLP</u>				X
24	<u>The Power of Attorney authorizing D. Kyle Cerminara and Mark D. Roberson to sign the Annual Report on Form 10-K, and any amendments thereto, for fiscal 2018 on behalf of non-management directors</u>				X
31.1	<u>Principal Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				X
31.2	<u>Principal Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>				X
32.1**	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				X
32.2**	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>				X
101					X

Edgar Filing: BALLANTYNE STRONG, INC. - Form 10-K

The following materials from Ballantyne Strong, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Loss; (iv) the Consolidated Statements of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements

\* Management contract or compensatory plan.

\*\*Furnished herewith.

The exhibits and schedules to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The  
+ Company will furnish copies of such exhibits and schedules to the Securities and Exchange Commission upon request.

***Item 16. Form 10-K Summary***

None.



**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*                      By: */s/ Mark D. Roberson*  
D. Kyle Cerminara, Chairman  
of the Board of

Directors and Chief Executive  
Officer

Mark D. Roberson, Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

(Principal Executive Officer)

Date: March 12, 2019

Date: March 12, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: */s/ D. Kyle Cerminara*  
D. Kyle Cerminara, Chairman of the Board

of Directors and Chief Executive Officer

(Principal Executive Officer)

Date: March 12, 2019

By: */s/ William J. Gerber (1)*  
William J. Gerber, Director

Date: March 12, 2019

By: */s/ Jack H. Jacobs (1)*  
Jack H. Jacobs, Director

Date: March 12, 2019

By: */s/ Lewis M. Johnson (1)*  
Lewis M. Johnson, Director

Date: March 12, 2019

By: */s/ Charles T. Lanktree (1)*  
Charles T. Lanktree, Director  
Date: March 12, 2019

By: */s/ Robert J. Roschman (1)*  
Robert J. Roschman, Director  
Date: March 12, 2019

By: */s/ Ndamukong Suh (1)*  
Ndamukong Suh, Director  
Date: March 12, 2019

Signed by the undersigned as

(1) attorney-in-fact and agent for the

Directors indicated

By: */s/ Mark D. Roberson*  
Mark D. Roberson, *Attorney-In-Fact*  
Date: March 12, 2019

