

BALLANTYNE STRONG, INC.
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission File Number: 1-13906

BALLANTYNE STRONG, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

47-0587703

(IRS Employer
Identification Number)

13710 FNB Parkway, Suite 400, Omaha, Nebraska

(Address of Principal Executive Offices)

68154

(Zip Code)

(402) 453-4444

(Registrant's telephone number, including area code:)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

| Class | Outstanding as of November 2, 2015 |
|--------------------------------|---|
| Common Stock, \$.01, par value | 14,163,246 shares |

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

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|--|---|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,749 | \$ 22,491 |
| Accounts receivable (net of allowance for doubtful accounts of \$811 and \$679, respectively) | 13,650 | 19,220 |
| Inventories: | | |
| Finished goods, net | 9,241 | 9,529 |
| Work in process | 345 | 632 |
| Raw materials and components, net | 1,151 | 2,281 |
| Total inventories, net | 10,737 | 12,442 |
| Recoverable income taxes | 111 | 1,255 |
| Deferred income taxes | 1,119 | 3,541 |
| Other current assets | 2,712 | 2,956 |
| Current assets held for sale | 638 | 2,712 |
| Total current assets | 53,716 | 64,617 |
| Property, plant and equipment (net of accumulated depreciation of \$6,316 and \$5,834, respectively) | 12,517 | 13,914 |
| Intangible assets, net | 264 | 1,168 |
| Goodwill | 895 | 1,029 |
| Notes receivable | 1,669 | 2,985 |
| Deferred income taxes | — | 4,910 |
| Other assets | 570 | 1,447 |
| Total assets | \$ 69,631 | \$ 90,070 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,616 | \$ 9,039 |
| Accrued expenses | 4,738 | 4,366 |
| Customer deposits/deferred revenue | 4,203 | 5,473 |
| Income tax payable | 1,166 | 1,009 |

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| | | |
|--|-----------|-----------|
| Total current liabilities | 17,723 | 19,887 |
| Deferred revenue | 1,525 | 2,230 |
| Deferred income taxes | 2,346 | 715 |
| Other accrued expenses, net of current portion | 1,523 | 1,776 |
| Total liabilities | 23,117 | 24,608 |
| 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 16,895 and 16,809 shares at September 30, 2015 and December 31, 2014, respectively; 14,164 and 14,078 shares outstanding at September 30, 2015 and December 31, 2014, respectively | 168 | 168 |
| Additional paid-in capital | 38,927 | 38,657 |
| Accumulated other comprehensive income: | | |
| Foreign currency translation | (5,258) | (2,325) |
| Postretirement benefit obligations | 139 | 139 |
| Retained earnings | 30,778 | 47,062 |
| | 64,754 | 83,701 |
| Less 2,731 of common shares in treasury, at cost at September 30, 2015 and December 31, 2014 | (18,240) | (18,239) |
| Total stockholders' equity | 46,514 | 65,462 |
| Total liabilities and stockholders' equity | \$ 69,631 | \$ 90,070 |

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations****Three and Nine Months Ended September 30, 2015 and 2014****(In thousands, except per share data)****(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net product sales | \$ 17,327 | \$ 17,396 | \$ 48,257 | \$ 48,432 |
| Net service revenues | 6,185 | 5,268 | 17,442 | 18,280 |
| Total net revenues | 23,512 | 22,664 | 65,699 | 66,712 |
| Cost of products sold | 15,271 | 15,042 | 42,439 | 41,676 |
| Cost of services | 4,273 | 3,565 | 11,362 | 12,516 |
| Total cost of revenues | 19,544 | 18,607 | 53,801 | 54,192 |
| Gross profit | 3,968 | 4,057 | 11,898 | 12,520 |
| Selling and administrative expenses: | | | | |
| Selling | 1,187 | 1,843 | 4,307 | 4,947 |
| Administrative | 4,032 | 3,066 | 11,893 | 9,781 |
| Total selling and administrative expenses | 5,219 | 4,909 | 16,200 | 14,728 |
| Gain (loss) on the sale or disposal of assets | (15) | 4 | (393) | 12 |
| Loss from operations | (1,266) | (848) | (4,695) | (2,196) |
| Equity income of joint venture | — | — | 94 | 95 |
| Other income (expense): | | | | |
| Interest income | 21 | 175 | 351 | 534 |
| Interest expense | (7) | (15) | (31) | (43) |
| Fair value adjustment to notes receivable | (1,595) | — | (1,595) | — |
| Other income, net | 763 | 255 | 1,345 | 341 |
| Total other income (expense) | (818) | 415 | 70 | 832 |
| Loss before income taxes | (2,084) | (433) | (4,531) | (1,269) |
| Income tax benefit (expense) | (1,117) | 324 | (11,753) | 947 |
| Net loss | \$(3,201) | \$(109) | \$(16,284) | \$(322) |
| Basic loss per share | \$(0.23) | \$(0.01) | \$(1.15) | \$(0.02) |
| Diluted loss per share | \$(0.23) | \$(0.01) | \$(1.15) | \$(0.02) |
| Weighted average shares outstanding: | | | | |
| Basic | 14,164 | 14,086 | 14,122 | 14,052 |
| Diluted | 14,164 | 14,086 | 14,122 | 14,052 |

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2015 and 2014

(In thousands)

(Unaudited)

| | Three Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|--|----------|---|------------|
| Net loss | \$ (3,201) | \$ (109) | \$ (16,284) | \$ (322) |
| Currency translation adjustment: | | | | |
| Unrealized net change arising during period | (1,965) | (710) | (2,933) | (1,113) |
| Other comprehensive loss | (1,965) | (710) | (2,933) | (1,113) |
| Comprehensive loss | \$ (5,166) | \$ (819) | \$ (19,217) | \$ (1,435) |

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries**Condensed Consolidated Statements of Cash Flows****Nine Months Ended September 30, 2015 and 2014****(In thousands)****(Unaudited)**

| | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$(16,284) | \$(322) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Provision for doubtful accounts | 215 | 9 |
| Provision for obsolete inventory | 1,645 | (117) |
| Provision for warranty | 583 | (191) |
| Depreciation and amortization | 1,646 | 1,374 |
| Fair value adjustment to notes receivable | 1,595 | — |
| Impairment of intangibles | 638 | — |
| Equity in income of joint venture | (94) | (95) |
| Loss on forward contracts | — | 145 |
| (Gain) loss on disposal of assets | 393 | (12) |
| Deferred income taxes | 8,765 | (916) |
| Share-based compensation expense | 269 | 292 |
| Changes in operating assets and liabilities: | | |
| Accounts, unbilled and notes receivable | 6,166 | 5,976 |
| Inventories | 1,108 | (1,348) |
| Other current assets | 96 | (8) |
| Accounts payable | (1,341) | (2,094) |
| Accrued expenses | (238) | (2,050) |
| Customer deposits/deferred revenue | (1,931) | (917) |
| Current income taxes | 1,425 | (2,938) |
| Other assets | (62) | (83) |
| Net cash provided by (used in) operating activities | 4,594 | (3,295) |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,051) | (1,057) |
| Proceeds from sale of assets | 38 | 58 |
| Net cash used in investing activities | (1,013) | (999) |
| Cash flows from financing activities: | | |
| Payments on capital lease obligations | (14) | (14) |

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| | | |
|---|----------|----------|
| Excess tax benefits from share-based arrangements | 10 | (7) |
| Net cash used in financing activities | (4) | (21) |
| Effect of exchange rate changes on cash and cash equivalents | (1,319) | (460) |
| Net increase (decrease) in cash and cash equivalents | 2,258 | (4,775) |
| Cash and cash equivalents at beginning of period | 22,491 | 28,791 |
| Cash and cash equivalents at end of period | \$24,749 | \$24,016 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Capital lease obligations for property and equipment | \$935 | \$158 |

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Ballantyne Strong, Inc. (“Ballantyne” or the “Company”), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., (“STS”) Strong/MDI Screen Systems, Inc., Strong Westrex (Beijing) Trading Inc., Convergent Corporation and Convergent Media Systems Corporation (“CMS”) designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens; and provides managed services including monitoring of networked equipment to our customers.

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company’s Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year-ended December 31, 2014.

The condensed consolidated balance sheet as of December 31, 2014 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

Use of Management Estimates

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

Fair Value of Financial and Derivative Instruments

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value 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 table presents the Company's financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall.

Fair Values Measured on a Recurring Basis at September 30, 2015:

| Level 1 | Level 2 | Level 3 | Total |
|------------------------|------------|------------|-------|
| \$ in thousands | | | |

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| | | | | |
|---------------------------|----------|----|----------|----------|
| Cash and cash equivalents | \$24,749 | \$ | —\$— | \$24,749 |
| Note Receivable | \$— | \$ | —\$1,669 | \$1,669 |

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Fair Values Measured on a Recurring Basis at December 31, 2014:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|------------------------|----------------|----------------|--------------|
| | \$ in thousands | | | |
| Cash and cash equivalents | \$22,491 | \$ — | \$ — | \$22,491 |
| Note Receivable | \$ — | \$ — | \$2,985 | \$2,985 |

Quantitative information about the Company's level 3 fair value measurements at September 30, 2015 is set forth below:

| \$ in thousands | Fair Value at 9/30/2015 | Valuation Technique | Unobservable input | Range |
|------------------------|--------------------------------|----------------------------|---|--------------|
| Note Receivable | \$ 1,669 | Discounted cash flow | Probability of default Discount rate | 47 % 18 % |

The notes receivable are recorded at estimated fair value at September 30, 2015 and accrue interest at a rate of 15% per annum. During the quarter ended September 30, 2015, new information became available regarding the ability of the debtor to repay the interest on the notes receivable which caused the Company to change the probability of default used in the discounted cash flow valuation from 0% to 47%. This resulted in a reduction to the fair value of notes receivable of \$1.6 million during the three and nine months ended September 30, 2015.

The significant unobservable inputs used in the fair value measurement of the Company's note receivable are discount rate and probability of default in the event 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 Note Receivable fair value:

| | Nine months ended September 30, 2015 2014 | |
|--|--|---------|
| | \$ in thousands | |
| Note Receivable balance, beginning of period | \$2,985 | \$2,497 |
| Interest income accrued | 279 | 358 |

| | | |
|--|---------|---------|
| Fair value adjustment | (1,595) | — |
| Note Receivable balance, end of period | \$1,669 | \$2,855 |

The carrying values of all other financial assets and liabilities including accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the nine months ended September 30, 2015 the Company measured a portion of its intangible assets at fair value as discussed further in footnote 5.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance was originally effective for the Company beginning January 1, 2017. However, in July 2015, the FASB approved a one year deferral of the update, resulting in an effective date of January 1, 2018 for the Company. An entity may adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the ASU. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

3. Loss Per Common Share

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

| (In thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-----------|---------------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Basic loss per share: | | | | |
| Loss applicable to common stock | \$(3,201) | \$(109) | \$(16,284) | \$(322) |
| Basic weighted average common shares outstanding | 14,164 | 14,086 | 14,122 | 14,052 |
| Basic loss per share | \$(0.23) | \$(0.01) | \$(1.15) | \$(0.02) |
| Diluted loss per share: | | | | |
| Loss applicable to common stock | \$(3,201) | \$(109) | \$(17,344) | \$(322) |
| Basic weighted average common shares outstanding | 14,164 | 14,086 | 14,122 | 14,052 |
| Dilutive effect of stock options and restricted stock awards | — | — | — | — |
| Dilutive weighted average common shares outstanding | 14,164 | 14,086 | 14,122 | 14,052 |
| Diluted loss per share | \$(0.23) | \$(0.01) | \$(1.15) | \$(0.02) |

For the three and nine month periods ended September 30, 2015, options to purchase 20,625 and 124,125 shares of common stock respectively were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. For the three and nine month periods ended September 30, 2015, restricted stock units of 56,873 and 88,877, respectively were excluded as their inclusion would be anti-dilutive, thereby decreasing the net loss per share. For the three and nine month periods ended September 30, 2014, options to purchase 196,500 shares of common stock were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. An additional 198,892 and 222,448 restricted stock units were excluded from the three and nine month periods ended September 30, 2014 as their inclusion would be anti-dilutive, thereby decreasing the net loss per share.

4. Warranty Reserves

Historically, the Company has generally granted a warranty to its customers for a one-year period following the sale of manufactured equipment and on selected repaired equipment for a one-year period. In most instances, the digital products are covered by the manufacturing firm's OEM warranty; however, there are certain customers where the

Company may grant warranties in excess of the manufacturer's warranty for digital products. The Company accrues for these costs at the time of sale or repair. The following table summarizes warranty activity for the three and nine months ended September 30, 2015 and 2014:

| (In thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|--------|---------------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Warranty accrual at beginning of period | \$ 310 | \$ 456 | \$ 423 | \$ 662 |
| Charged to expense | 130 | 78 | 468 | 166 |
| Amounts written off, net of recoveries | (144) | (216) | (595) | (505) |
| Foreign currency adjustment | (15) | (2) | (15) | (7) |
| Warranty accrual at end of period | \$ 281 | \$ 316 | \$ 281 | \$ 316 |

5. Intangible Assets

Intangible assets consisted of the following at September 30, 2015:

| | Useful life (Years) | Gross (in thousands) | Accumulated amortization | Net |
|--|---------------------------|--------------------------|-----------------------------|-------|
| Intangible assets subject to amortization: | | | | |
| Customer relationships | 4-9 | \$1,404 | \$ (1,404) | \$— |
| Trademarks | 3 | 182 | (182) | — |
| Product Formulation | 10 | 457 | (193) | 264 |
| Total | | \$2,043 | \$ (1,779) | \$264 |

Intangible assets consisted of the following at December 31, 2014:

| | Useful life (Years) | Gross (in thousands) | Accumulated amortization | Net |
|--|-----------------------------------|---------------------------------|-------------------------------------|------------|
| Intangible assets subject to amortization: | | | | |
| Customer relationships | 4-9 | \$1,556 | \$ (1,538) | \$18 |
| Trademarks | 3 | 210 | (210) | — |
| Software | 3 | 905 | (144) | 761 |
| Software in development | 3 | 16 | — | 16 |
| Product Formulation | 10 | 526 | (153) | 373 |
| Total | | \$3,213 | \$ (2,045) | \$1,168 |

The Company recorded amortization expense relating to other identifiable intangible assets of \$0.3 million and \$0.2 million for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 the Company determined that the entire carrying amount of the software intangibles would not be recoverable as no future customers would be able to utilize the software and recorded an impairment charge of \$0.6 million for these intangibles to measure them at their fair value.

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

| | Amount (in thousands) |
|----------------|------------------------------------|
| Remainder 2015 | \$ 20 |
| 2016 | 65 |
| 2017 | 52 |
| 2018 | 42 |
| 2019 | 31 |
| Thereafter | 54 |

6. Goodwill

The following represents a summary of changes in the Company's carrying amount of goodwill for the quarter ended September 30, 2015:

| | |
|----------------------------------|-------------------|
| | (in thousands) |
| Balance as of December 31, 2014 | \$ 1,029 |
| Foreign currency translation | (134) |
| Balance as of September 30, 2015 | \$ 895 |

7. Restructuring Activities

In connection with the integration of the 2013 CMS acquisition, as well as the Company's ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the fourth quarter of 2013 to reduce headcount and move the Company's warehouse from Omaha, Nebraska to Georgia. In 2013, the Company recorded \$1.5 million in severance costs it expected to incur as part of the integration of CMS and for site closure of the Omaha warehouse. The restructuring initiative was completed in the first quarter of 2015.

In connection with its strategic planning process, as well as the Company's ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the second quarter of 2015 to reduce headcount and more efficiently utilize real estate assets. Included in administrative expenses for the nine months ended September 30, 2015, are \$0.7 million and \$0.2 million of severance and lease termination costs the Company expects to incur as part of this restructuring plan.

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

| | 2015 Strategic Initiative | 2013 Convergent Related Severance | Total Restructuring |
|--|--|--|--------------------------------|
| | (in thousands) | | |
| Accrued liability at beginning of period | \$- | \$ 187 | \$ 187 |
| Lease termination expense | 219 | - | 219 |
| Lease termination paid | (41) | - | (41) |
| Severance expense | 695 | - | 695 |
| Severance paid | (447) | (160) | (607) |
| Accrued liability at end of period | \$426 | \$ 27 | \$ 453 |

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

| | 2015 Strategic Initiative | 2013 Convergent Related Severance | Total Restructuring |
|--|--|--|--------------------------------|
| | (in thousands) | | |
| Accrued liability at beginning of period | \$706 | \$ 58 | \$ 764 |
| Lease termination expense | (94) | - | (94) |
| Lease termination paid | (41) | - | (41) |
| Severance paid | (145) | (31) | (176) |
| Accrued liability at end of period | \$426 | \$ 27 | \$ 453 |

8. Income Taxes

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The Company considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. A cumulative loss in a particular tax jurisdiction in recent years is a significant piece of evidence with respect to the realizability that is difficult to overcome. Based on the available objective evidence including recent updates to the taxing jurisdictions generating income, the Company concluded that a valuation allowance of \$7.9 million should be recorded against the Company's U.S. and China tax jurisdiction deferred tax assets as of September 30, 2015. During the third quarter the valuation allowance decreased \$1.3 million.

The effective tax rate (calculated as a ratio of income tax expense/(benefit) to pretax earnings, inclusive of equity method investment losses) was approximately 53.6% and 259.4% for the three and nine months ended September 30, 2015, respectively as compared to (74.8%) and (74.6%) for the three and nine months ended September 30, 2014, respectively. The effective tax rate differs from the statutory rates for the three month periods ended September 30, 2015 and 2014 primarily as a result of the increase to the valuation allowance recorded against the Company's U.S. tax jurisdiction deferred tax assets in 2015 and differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The Company's annual effective rate was higher in the nine month period ended September 30, 2015 compared to the comparable period for 2014 primarily due to the valuation allowance recorded against the Company's U.S. and China tax jurisdiction deferred tax assets.

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

9. Stock Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values. Share-based compensation expense included in selling and administrative expenses approximated \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2015 and \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2014.

Long-Term Incentive Plan

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, or performance units. Vesting terms vary with each grant and may be subject to vesting upon a "change in control" of the Company. The total number of shares reserved for issuance under the 2010 Plan is 1,600,000 shares. During the three month and nine months ended September 30, 2015, the Company granted zero and 27,500 restricted stock units, respectively, under the 2010 Plan.

Options

The following table summarizes the Company's activities with respect to its stock options for the nine months ended September 30, 2015 as follows:

| | Number of Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
|-----------------------------------|----------------------------------|--|--|--|
| Outstanding at December 31, 2014 | 181,500 | \$ 5.56 | 6.77 | \$ 13 |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited | (99,000) | 6.53 | | |
| Outstanding at September 30, 2015 | 82,500 | \$ 4.39 | 6.55 | \$ 26 |
| Exercisable at September 30, 2015 | 60,000 | \$ 4.41 | 6.52 | \$ 9 |

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 September 30, 2015.

As of September 30, 2015, the total unrecognized compensation cost related to stock option awards was approximately \$16,000 which is expected to be recognized over a weighted average period of 0.3 years.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2015:

| Range of option exercise price | Options Outstanding at September 30, 2015 | | | Options Exercisable at September 30, 2015 | | |
|---------------------------------------|--|--|---|--|--|---|
| | Number of options | Weighted average remaining contractual life | Weighted average exercise price per option | Number of options | Weighted average remaining contractual life | Weighted average exercise price per option |
| \$3.55 to 4.70 | 82,500 | 6.55 | \$ 4.39 | 60,000 | 6.52 | \$ 4.41 |

Restricted Stock Plans

The Ballantyne Strong, Inc. 2014 Non-Employee Directors' Restricted Stock Plan (the "Non-Employee Plan") provides for the award of restricted shares to outside directors. A total of 200,000 shares are reserved for issuance under the Non-Employee Plan. During the nine months ended September 30, 2015, the Company granted 53,208 restricted shares under the Non-Employee Plan to the Board of Directors. These shares will vest the day preceding the Company's 2016 Annual Meeting of Stockholders.

In connection with the restricted stock granted to certain employees and non-employee directors, the Company accrues compensation expense based on the estimated number of shares expected to be issued utilizing the most current information available to the Company at the date of the financial statements. The Company estimates the fair value of restricted stock awards based upon the market price of the underlying common stock on the date of grant.

As of September 30, 2015, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately \$0.5 million which is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes restricted stock activity for the nine months ended September 30, 2015:

| | Number of Restricted Stock Shares | Weighted Average Grant Price Fair Value |
|----------------------------------|--|--|
| Non-vested at December 31, 2014 | 264,793 | \$ 3.93 |
| Granted | 80,708 | 4.42 |
| Shares vested | (86,317) | 4.12 |
| Shares forfeited | (110,027) | 3.84 |
| Non-vested at September 30, 2015 | 149,158 | \$ 4.14 |

10. Foreign Exchange Contracts

The Company's primary exposure to foreign currency fluctuations pertains to its subsidiaries in Canada and China. In certain instances the Company may enter into foreign exchange forward contracts to manage a portion of this risk. The Company has not designated its foreign exchange forward contracts as hedges.

All cash flows related to our foreign currency exchange contracts are classified as operating cash flows. The Company recognized in other income, the following realized and unrealized gains from foreign currency forward exchange contracts:

| (in thousands) | Classification | Three Months Ended September 30, 2015 | 2014 | Nine Months Ended September 30, 2015 | 2014 |
|------------------------------------|---------------------|--|------|---|-----------|
| Foreign exchange forward contracts | Other Income (Loss) | \$ — | \$ — | \$ — | \$ (145) |

11. Commitments, Contingencies and Concentrations

Concentrations

The Company's top ten customers accounted for approximately 47.8% and 46.9% of total consolidated net revenues for the three and nine months ended September 30, 2015, respectively. Trade accounts receivable from these customers represented approximately 36.6% of net consolidated receivables at September 30, 2015. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company's significant customers could have a material adverse effect on the Company's business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products and services.

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

Leases

The Company and its subsidiaries lease plant and office facilities, furniture, autos and equipment under operating leases expiring through 2023. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business.

The Company's future minimum lease payments for leases at September 30, 2015 are as follows:

| | Capital Leases | Operating Leases |
|---|-------------------|---------------------|
| | (In thousands) | |
| Remainder 2015 | \$80 | \$ 168 |
| 2016 | 319 | 467 |
| 2017 | 290 | 356 |
| 2018 | 248 | 340 |
| 2019 | 130 | 343 |
| Thereafter | — | 968 |
| Total minimum lease payments | 1,067 | \$ 2,642 |
| Less: Amount representing interest | 58 | |
| Present value of minimum lease payments | 1,009 | |
| Less: Current maturities | 303 | |
| Capital lease obligations, net of current portion | \$706 | |

12. Business Segment Information

As of September 30, 2015, the Company's operations were conducted principally through two business segments: Systems Integration and Managed Services. Systems Integration operations include the sale of digital projection equipment, screens, sound systems in addition to the design, assembly and sale of followspots and other lighting products. Managed Services operations include the delivery of end to end digital signage solutions, video communication solutions, content creation and management and service of digital signage and digital cinema equipment. The Company allocates resources to business segments and evaluates the performance of these segments based upon reported segment operating profit. The Company records intercompany sales at cost and has eliminated all significant intercompany sales in consolidation.

Summary by Business Segments

| (In thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | | | | |
| Systems Integration | \$ 14,814 | \$ 15,725 | \$ 42,755 | \$ 44,500 |
| Managed Services | 8,992 | 7,170 | 23,836 | 23,142 |
| Total segment revenue | 23,806 | 22,895 | 66,591 | 67,642 |
| Eliminations | (294) | (231) | (892) | (930) |
| Total net revenue | \$ 23,512 | \$ 22,664 | \$ 65,699 | \$ 66,712 |
| Operating Income (Loss) | | | | |
| Systems Integration | \$ 2,184 | \$ 1,488 | \$ 5,043 | \$ 3,995 |
| Managed Services | (1,120) | (526) | (1,717) | (123) |
| Total segment operating income | 1,064 | 962 | 3,326 | 3,872 |
| Unallocated general and administrative expenses | (2,315) | (1,814) | (7,628) | (6,080) |
| Interest, net | 14 | 160 | 320 | 491 |
| Gain (loss) on sale of assets | (15) | 4 | (393) | 12 |
| Equity income of joint venture | — | — | 94 | 95 |
| Fair value adjustment to notes receivable | (1,595) | — | (1,595) | — |
| Other income (loss) | 763 | 255 | 1,345 | 341 |
| Loss before income taxes | \$ (2,084) | \$ (433) | \$ (4,531) | \$ (1,269) |

| (In thousands) | September 30, 2015 | December 31, 2014 |
|-----------------------|-------------------------------|------------------------------|
| Identifiable assets | | |
| Systems Integration | \$ 50,567 | \$ 64,798 |
| Managed Services | 19,064 | 25,272 |
| Total | \$ 69,631 | \$ 90,070 |

Summary by Geographical Area

| (In thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | | | | |
| United States | \$ 15,442 | \$ 14,429 | \$ 43,435 | \$ 44,627 |
| China | 4,936 | 3,616 | 11,872 | 9,627 |

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| | | | | |
|------------------------|----------|----------|----------|----------|
| Latin America | 294 | 1,120 | 2,739 | 4,254 |
| Canada | 1,499 | 1,415 | 3,810 | 4,305 |
| Mexico | 559 | 793 | 1,938 | 2,075 |
| Europe | 447 | 556 | 1,219 | 898 |
| Asia (excluding China) | 135 | 677 | 200 | 833 |
| Other | 200 | 58 | 486 | 93 |
| Total | \$23,512 | \$22,664 | \$65,699 | \$66,712 |

| (In thousands) | September 30, 2015 | December 31, 2014 |
|------------------------|-------------------------------|------------------------------|
| Identifiable assets | | |
| United States | \$ 38,646 | \$ 61,159 |
| Canada | 23,913 | 18,849 |
| China | 5,100 | 7,002 |
| Asia (excluding China) | 1,972 | 3,060 |
| Total | \$ 69,631 | \$ 90,070 |

Intersegment sales have been recorded at amounts approximating market. Identifiable assets by geographical area are based on location of facilities. Net sales by geographical area are based on destination of sales.

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

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

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the "Risk Factors" section contained in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Given the risks and uncertainties, readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein, as well as others not now anticipated. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Overview

The Company designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens; and provides managed services including monitoring of networked equipment to our customers. We add value through our design, engineering, manufacturing excellence and customer service. We focus on the cinema, retail, financial, and government markets. We have two primary operating segments: Systems Integration and Managed Services. The Systems Integration Segment provides a full range of product solutions primarily for the theatre 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, and audio systems. The Managed Service Segment delivers solutions and services across two primary markets: digital out-of-home and cinema. These markets are served through the capabilities the Company has gained from the acquisition of CMS in 2013 and from STS respectively. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing solutions and services to our customers.

Our segments were determined based on the manner in which management organizes segments for making operating decisions and assessing performance. Approximately 65% of revenues for the first nine months of 2015 were from

systems integration and approximately 35% were from managed services. Additional information related to our reporting segments can be found in the notes to the consolidated financial statements.

Results of Operations:

Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

Revenues

Net revenues during the three months ended September 30, 2015 increased 3.7% to \$23.5 million from \$22.7 million during the three months ended September 30, 2014.

| | Three Months Ended September 30, 2015 2014 (In thousands) | |
|------------------------|---|----------|
| Systems Integration | \$14,814 | \$15,725 |
| Managed Services | 8,992 | 7,170 |
| Total segment revenues | 23,806 | 22,895 |
| Eliminations | (294) | (231) |
| Total net revenues | \$23,512 | \$22,664 |

Systems Integration

Sales of systems integration products and services decreased 5.8% to \$14.8 million in 2015 from \$15.7 million in 2014. Sales of digital cinema products and services decreased by \$1.3 million as the industry change to digital projection equipment continues to wind down as expected. This was partially offset by a \$0.6 million increase in sales of screen products.

Managed Services

Sales of managed services products and services increased 25.4% to \$9.0 million in 2015 from \$7.2 million in 2014. Sales of products and services related to digital signage as well as content creation, management and distribution increased \$0.8 million, and sales of products and services related to cinema service increased \$1.0 million.

Export Revenues

Sales outside the United States (mainly systems integration sales) decreased to \$8.1 million in the third quarter of 2015 from \$8.2 million a year ago resulting primarily from decreased sales in Latin America, and Asia partially offset by increased sales in China. Export sales are sensitive to the timing of the digital cinema conversions in these countries and normal replacement cycles. Export sales are sensitive to worldwide economic and political conditions that lead to volatility. Certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit decreased 2.2% to \$4.0 million in the third quarter of 2015 from \$4.1 million a year-ago, and decreased as a percent of total revenue to 16.9% from 17.9% in 2014. Gross profit in the systems integration segment increased to \$3.4 million in the third quarter of 2015 from \$3.1 million in 2014 and increased as a percentage of sales to 23.0% in 2015 from 19.5% in 2014. The increase in gross margin dollars was driven by higher volume, and the increase in gross margin as a percentage of sales was driven by product mix.

The gross profit in the managed services segment amounted to \$0.6 million or 6.2% as a percentage of revenues in the third quarter of 2015 compared to \$1.0 million or 13.8% as a percentage of revenues in 2014. The decrease in gross margin dollars and gross margin as a percentage of sales was driven by inventory reserve increases, product mix, and lower utilization of field technicians.

Selling Expenses

Selling expenses decreased 35.6% to \$1.2 million in the third quarter of 2015 compared to \$1.8 million a year-ago and as a percentage of revenues decreased to 5.0% from 8.1% in 2014. The decrease in selling expenses was due to lower employee headcount from the restructuring initiatives initiated in the second quarter of 2015.

Administrative Expenses

Administrative expenses increased 31.5% to \$4.0 million in third quarter of 2015 from \$3.1 million a year ago and as a percent of total revenue increased to 17.1% in 2015 from 13.5% in 2014. The increase in expenses is primarily due to \$0.6 million of intangible asset impairment charges recorded during the third quarter of 2015.

Other Financial Items

The third quarter of 2015 includes other expenses of \$0.8 million compared to other income of \$0.4 million in the third quarter of 2014. The decrease is due to \$1.6 million of expense related to fair value adjustments and \$0.1 million decrease in net interest, offset by \$0.5 million net gains on foreign currency transaction.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The Company considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. A cumulative loss in a particular tax jurisdiction in recent years is a significant piece of evidence with respect to the realizability that is difficult to overcome. Based on the available objective evidence including recent updates to the taxing jurisdictions generating income, the Company concluded that a valuation allowance of \$7.9 million should be recorded against the Company's U.S. and China tax jurisdiction deferred tax assets as of September 30, 2015. During the third quarter the valuation allowance decreased \$1.3 million.

The effective tax rate (calculated as a ratio of income tax expense/(benefit) to pretax earnings, inclusive of equity method investment losses) was approximately 53.6% and (74.8%) for the three month periods ended September 30, 2015 and 2014, respectively. The effective tax rate differs from the statutory rates primarily as a result of the valuation allowance recorded against the Company's U.S. and China tax jurisdiction deferred tax assets and differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction.

As a result of the items outlined above, we generated losses of approximately \$3.2 million and \$0.23 basic and diluted losses per share in the three months ended September 30, 2015 compared to losses of \$0.1 million in 2014 and basic and diluted loss per share of \$0.01 a year-ago, respectively.

Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014**Revenues**

Net revenues during the nine months ended September 30, 2015 decreased 1.5% to \$65.7 million from \$66.7 million during the nine months ended September 30, 2014.

| | Nine Months Ended September 30, 2015 2014 (In thousands) | |
|------------------------|--|----------|
| Systems Integration | \$42,755 | \$44,500 |
| Managed Services | 23,836 | 23,142 |
| Total segment revenues | 66,591 | 67,642 |
| Eliminations | (892) | (930) |
| Total net revenues | \$65,699 | \$66,712 |

Systems Integration

Sales of systems integration products and services decreased 3.9% to \$42.8 million in 2015 from \$44.5 million in 2014. Sales of digital cinema products and services decreased by \$4.8 million as the industry change to digital projection equipment continues to wind down as expected. This was partially offset by a \$3.0 million increase in sales of screen products.

Managed Services

Sales of managed services products and services increased 3.0% to \$23.8 million in 2015 from \$23.1 million in 2014. Sales of products and services related to digital signage as well as content creation, management and distribution increased \$0.8 million.

Export Revenues

Sales outside the United States (mainly systems integration sales) increased to \$22.3 million in 2015 from \$22.1 million a year ago resulting primarily from increased sales in China and Europe, partially offset by decreased sales in Latin America, Canada, Mexico, and Asia. Export sales are sensitive to the timing of the digital cinema conversions in these countries and normal replacement cycles. Export sales are sensitive to worldwide economic and political conditions that lead to volatility. Certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit decreased 5.0% to \$11.9 million in 2015 from \$12.5 million a year-ago, and decreased as a percent of total revenue to 18.1% from 18.8% in 2014. Gross profit in the systems integration segment increased to \$8.8 million in 2015 from \$8.2 million in 2014, and increased as a percentage of sales to 20.6% in 2015 from 18.5% a year-ago. The increase in gross margin dollars was driven by higher volume, and the increase in gross margin as a percentage of sales was driven by product mix.

The gross profit in the managed services segment amounted to \$3.1 million or 13.0% as a percentage of revenues in 2015 compared to \$4.3 million or 18.5% as a percentage of revenues in 2014. The decrease in gross margin dollars and gross margin as a percentage of sales was driven by inventory reserve increases, product mix, and lower utilization of field technicians.

Selling Expenses

Selling expenses decreased 12.9% to \$4.3 million in 2015 compared to \$4.9 million a year-ago and as a percentage of revenues decreased to 6.6% from 7.4% a year-ago. The decrease in selling expenses was due to lower employee headcount from the restructuring initiatives initiated in the second quarter of 2015.

Administrative Expenses

Administrative expenses increased 21.6% to \$11.9 million in 2015 from \$9.8 million in 2014 and as a percent of total revenue increased to 18.1% in 2015 from 14.7% in 2014. The increase in expenses is primarily due to \$0.9 million of restructuring charges and \$0.6 million of intangible asset impairment charges during 2015.

Other Financial Items

Our results for 2015 include other income of \$0.1 million compared to other income of \$0.8 million in 2014. The decrease is due to \$1.6 million of expense related to fair value adjustments and \$0.2 million decrease in net interest, offset by \$1.0 million net gains on foreign currency transaction.

The effective tax rate (calculated as a ratio of income tax expense/(benefit) to pretax earnings, inclusive of equity method investment losses) was approximately 259.4% and (74.6%) for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rate differs from the statutory rates primarily as a result of the valuation allowance recorded against the Company's U.S. and China tax jurisdiction deferred tax assets and differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The Company's annual effective rate was higher in the nine month period ended September 30, 2015 compared to the comparable period for 2014 due to the \$7.9 million valuation allowance recorded against the Company's U.S. and China tax jurisdiction deferred tax assets discussed above.

As a result of the items outlined above, we generated net losses of approximately \$16.3 million and basic and diluted losses per share of \$1.15 in the nine months ended September 30, 2015 compared to losses of \$0.3 million in 2014 and basic and diluted losses per share of \$0.02 a year-ago, respectively.

Liquidity and Capital Resources

During the past several years, we have met our working capital and capital resource needs from either our operating or investing cash flows or a combination of both. We ended the third quarter with total cash and cash equivalents of \$24.7 million compared to \$22.5 million at December 31, 2014. The Company believes cash and cash equivalents and its expected cash flows from operations will be sufficient to fund operations for at least the next twelve months.

As of September 30, 2015, \$15.1 million of the \$24.7 million in cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. income taxes and foreign withholding taxes on a portion of these funds when repatriated back to the U.S.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$4.6 million in the first nine months of 2015, which included a net loss of \$16.3 million, offset by non-cash charges (benefits) of deferred tax expense, depreciation and amortization, reserve provisions, fair value adjustments, and non-cash stock compensation totaling \$15.6 million. Changes in working capital benefitted cash from operating activities of \$5.3 million, primarily due to decreases in accounts receivable, partially offset by decreases in accounts payable and customer deposits and deferred revenue. Accounts receivable decreased \$6.2 million due to decreased sales in the third quarter of 2015 compared to the last quarter of 2014 and due to improved accounts receivable collection results. Accounts payable balances decreased \$1.3 million due to payments made to vendors during the quarter for purchases made to fulfill orders during the fourth quarter of 2014. Customer deposits and deferred revenue decreased \$1.9 million as revenue was recognized related to customer deposits and deferred revenue.

Net cash used by operating activities was \$3.3 million in the first nine months of 2014, which included a net loss of \$0.3 million, offset by non-cash charges (benefits) deferred tax expense, depreciation and amortization, reserve provisions and non-cash stock compensation totaling \$0.5 million. Changes in working capital used cash from operating activities of \$3.5 million, primarily due to decreases in accounts payables, accrued expenses and income taxes, partially offset by a decrease in accounts receivable. Accounts receivable decreased \$6.0 million due to collections of the higher sales volume of the prior 2013 quarter compared to the third quarter of 2014. Accounts payable balances decreased \$2.0 million due to payments made to vendors during the quarter for purchases made to fulfill orders during the fourth quarter of 2013. The balance of current income taxes recoverable decreased cash provided by operating activities by \$2.9 million due to the tax benefits generated from 2014 U.S. operating losses.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to \$1.0 million in 2015 compared to \$1.0 million in 2014. The cash used in investing activities in 2015 and 2014 were primarily for capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing was minimal in 2015 and 2014.

Hedging and Trading Activities

Our primary exposure to foreign currency fluctuations pertains to our subsidiaries in Canada and China. In certain instances, the Company may enter into a foreign exchange contract to manage a portion of this risk. The Company's foreign exchange forward contracts expired in 2014. For the nine months ended September 30, 2014 we recorded \$0.1 million in realized and unrealized losses associated with these contracts in our condensed consolidated statement of income.

We do not have any trading activities that include non-exchange traded contracts at fair value.

Off Balance Sheet Arrangements and Contractual Obligations

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

| Contractual Obligations | Total | Remaining in 2015 | One to Three Years | Three to Five Years | Thereafter |
|--------------------------------|--------------|------------------------------|-----------------------------------|--|-------------------|
| Postretirement benefits | 135 | 17 | 39 | 21 | 58 |
| Capital leases | 1,067 | 80 | 609 | 378 | — |
| Operating leases | 2,642 | 168 | 823 | 683 | 968 |
| Contractual cash obligations | \$3,844 | \$ 265 | \$1,471 | \$1,082 | \$ 1,026 |

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

Seasonality

Generally, our quarterly revenue and earnings fluctuate moderately from quarter to quarter. As we increase our sales in our current markets, and as we expand into new markets in different geographies, it is possible we may experience different seasonality patterns in our business. As a result, the results of operations for the period ended September 30,

2015 are not necessarily indicative of the results that may be expected for an entire fiscal year.

Litigation

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

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance was originally effective for the Company beginning January 1, 2017. However, in July 2015, the FASB approved a one year deferral of the update, resulting in an effective date of January 1, 2018 for the Company. An entity may adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the ASU. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

Critical Accounting Policies and Estimates

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

Our accounting policies and estimates that are most critical to the presentation of our results of operations and financial condition, and which require the greatest use of judgments and estimates by management, are designated as our critical accounting policies. See further discussion of our critical accounting policies under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for our year ended December 31, 2014. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. There were no significant changes in our critical accounting policies during the nine months ended September 30, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Foreign Exchange — Exposures to transactions denominated in a currency other than the entity’s functional currency are primarily related to our China and Canadian subsidiaries. From time to time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with forecasted transactions.

A portion of our cash in the China and Canadian subsidiaries is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balances by approximately \$0.2 million.

Item 4. Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company’s management, including the Company’s President and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15.

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

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 includes a detailed discussion of the Company's risk factors. There have been no material changes to the risk factors previously disclosed.

Item 2. Unregistered Sales of Equity Securities and Uses of Proceeds

On August 20, 2015, we announced that our Board of Directors adopted a stock repurchase program authorizing the repurchase of up to 700,000 shares of our outstanding Common Stock pursuant to a plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 (as amended). Repurchases during the quarter ended September 30, 2015 are reflected in the following table.

ISSUER PURCHASES OF EQUITY SECURITIES (1)

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares (or approximate \$ amount) that May Yet Be Purchased Under the Plans or Programs |
|----------------------------------|---|---|---|--|
| August 20 — August 31, 2015 | — | \$ — | — | 700,000 |
| September 1 — September 30, 2015 | 200 | \$ 4.76 | 200 | 699,800 |

(1) On August 20, 2015, the Company announced that its Board of Directors adopted a stock repurchase program authorizing the Company to repurchase of up to 700,000 shares of the Company's outstanding Common Stock.

Item 6. Exhibits

See the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BALLANTYNE STRONG, INC.

By: */s/ D. KYLE CERMINARA*
D. Kyle Cerminara, Executive Chairman

By: */s/ NATHAN D. LEGBAND*
Nathan D. Legband, Chief Financial Officer

Date: November 5, 2015

Date: November 5, 2015

EXHIBIT INDEX

| Exhibit Number | Document Description | Incorporated by Reference | | | Filed Herewith |
|---------------------------|---|--------------------------------------|----------------|------------------------|---------------------------|
| | | Form | Exhibit | Filing Date | |
| 31.1 | Rule 13a-14(a) Certification of Executive Chairman | | | | X |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer | | | | X |
| 32.1 | 18 U.S.C. Section 1350 Certification of Executive Chairman | | | | X |
| 32.2 | 18 U.S.C. Section 1350 Certification of Chief Financial Officer | | | | X |
| 33.1 | Separation and Release Agreement, executed May 6, 2015, between Ballantyne Strong, Inc. and Gary L. Cavey | 8-K | 10.1 | May 11, 2015 | |
| 33.2 | Employment Agreement, dated November 2, 2015, by and between Ballantyne Strong, Inc. and Stephen L. Schilling | 8-K | 10.1 | November 4, 2015 | |
| 101 | The following materials from Ballantyne Strong's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. | | | | X |

