

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from to

Commission File Number: 1-13906

BALLANTYNE STRONG, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware **47-0587703**
(State or Other Jurisdiction of (IRS Employer
Incorporation or Organization) Identification Number)

13710 FNB Parkway, Suite 400 **68154**
Omaha, Nebraska
(Address of Principal Executive Offices) (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 [X] 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 [X] 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 [X]
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 [X]

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

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 May 2, 2016
Common Stock, \$.01, par value	14,192,796 shares

TABLE OF CONTENTS

	Page No.
 <u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets, March 31, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	20
 <u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	20
Item 1A. <u>Risk Factors</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	21

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

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,826	\$ 22,070
Accounts receivable (net of allowance for doubtful accounts of \$1,909 and \$1,927, respectively)	10,856	11,359
Inventories:		
Finished goods, net	9,310	8,152
Work in process	405	190
Raw materials and components, net	1,308	1,351
Total inventories, net	11,023	9,693
Income taxes recoverable	383	85
Other current assets	2,440	2,739
Total current assets	45,528	45,946
Property, plant and equipment (net of accumulated depreciation of \$7,504 and \$6,727, respectively)	11,603	11,768
Marketable securities	1,685	2,101
Equity method investments	4,381	4,001
Intangible assets, net	341	235
Goodwill	919	863
Notes receivable	1,669	1,669
Other assets	74	281
Total assets	\$ 66,200	\$ 66,864
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,712	\$ 7,369
Accrued expenses	3,651	4,100
Customer deposits/deferred revenue	4,366	5,007
Income tax payable	206	1,291
Total current liabilities	15,935	17,767

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

Deferred revenue	1,277	1,288
Deferred income taxes	1,836	1,716
Other accrued expenses, net of current portion	1,509	1,581
Total liabilities	20,557	22,352
Stockholders' equity:		
Preferred stock, par value \$.01 per share; Authorized 1,000 shares, none outstanding	—	—
Common stock, par value \$.01 per share; Authorized 25,000 shares; issued 16,947 and 16,925 shares at March 31, 2016 and December 31, 2015, respectively; 14,204 and 14,191 shares outstanding at March 31, 2016 and December 31, 2015, respectively	169	169
Additional paid-in capital	39,340	39,157
Accumulated other comprehensive income (loss):		
Foreign currency translation	(4,637)	(6,229)
Postretirement benefit obligations	74	74
Retained earnings	28,982	29,595
	63,928	62,766
Less 2,743 and 2,734 of common shares in treasury at March 31, 2016 and December 31, 2015, respectively, at cost	(18,285)	(18,254)
Total stockholders' equity	45,643	44,512
Total liabilities and stockholders' equity	\$ 66,200	\$ 66,864

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations****Three Months Ended March 31, 2016 and 2015****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended March 31,	
	2016	2015
Net product sales	\$ 15,046	\$ 17,142
Net service revenues	5,494	5,328
Total net revenues	20,540	22,470
Cost of products sold	11,649	14,795
Cost of services	3,120	3,414
Total cost of revenues	14,769	18,209
Gross profit	5,771	4,261
Selling and administrative expenses:		
Selling	1,191	1,677
Administrative	3,295	3,799
Total selling and administrative expenses	4,486	5,476
Gain on sale or disposal of assets	—	2
Income (loss) from operations	1,285	(1,213)
Other income (expense):		
Interest income	28	164
Interest expense	(13)	(19)
Foreign currency transaction gain (loss)	(824)	637
Change in value of marketable securities	(483)	—
Other income, net	37	8
Total other income (expense)	(1,255)	790
Earnings (loss) before income taxes and equity method investment income	30	(423)
Income tax expense	(684)	(9,741)
Equity method investment income	41	—
Net loss	\$(613)	\$(10,164)
Basic loss per share	\$(0.04)	\$(0.72)
Diluted loss per share	\$(0.04)	\$(0.72)
Weighted average shares outstanding:		
Basic	14,203	14,091
Diluted	14,203	14,091

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2016 and 2015

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (613)	\$ (10,164)
Currency translation adjustment		
Unrealized net change arising during period	1,592	(1,121)
Other comprehensive income (loss)	1,592	(1,121)
Comprehensive income (loss)	\$ 979	\$ (11,285)

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries**Condensed Consolidated Statements of Cash Flows****Three Months Ended March 31, 2016 and 2015****(In thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(613)	\$(10,164)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(22)	18
Provision for obsolete inventory	(11)	(49)
Provision for warranty	111	99
Depreciation and amortization	602	569
Equity method investment income	(41)	—
Change in value of marketable securities	483	—
Gain on disposal or transfer of assets	—	(2)
Deferred income taxes	87	8,692
Share-based compensation expense	130	111
Changes in operating assets and liabilities:		
Accounts receivable, unbilled and notes receivable	1,028	5,062
Inventories	(1,212)	1,920
Other current assets	210	(410)
Accounts payable	240	(2,651)
Accrued expenses	(508)	(480)
Customer deposits/deferred revenue	(656)	(1,448)
Income taxes payable	(1,357)	849
Other assets	(36)	10
Net cash provided by (used in) operating activities	(1,565)	2,126
Cash flows from investing activities:		
Purchase of equity securities	(406)	—
Capital expenditures	(165)	(161)
Proceeds from sales of assets	—	5
Net cash used in investing activities	(571)	(156)
Cash flows from financing activities:		
Purchase of treasury stock	(31)	—
Proceeds from exercise of stock options	53	—
Payments on capital lease obligations	(78)	(14)
Excess tax benefits from share-based arrangements	6	19

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

Net cash provided by (used in) financing activities	(50)	5
Effect of exchange rate changes on cash and cash equivalents	942	(584)
Net increase (decrease) in cash and cash equivalents	(1,244)	1,391
Cash and cash equivalents at beginning of period	22,070	22,491
Cash and cash equivalents at end of period	\$20,826	\$23,882
Supplemental disclosure of non-cash investing and financing activities:		
Capital lease obligations for property and equipment	\$—	\$226

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Ballantyne Strong, Inc. (“Ballantyne” or the “Company”), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Strong Westrex (Beijing) Technology Inc., Convergent Corporation and Convergent Media Systems Corporation (“Convergent” or “CMS”) 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, 2015.

The condensed consolidated balance sheet as of December 31, 2015 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

Use of Management Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. generally ac