

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 [X]

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 [X]

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 [X] 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 [X] 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.
[X]

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

	Page No.
<u>PART I</u>	
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
<u>PART II</u>	
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
<u>PART III</u>	
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
<u>PART IV</u>	
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.

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 termina