BALLANTYNE STRONG, INC.
Form 10-Q
August 08, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2017**

**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 Incorporation or Organization) | (IRS Employer Identification Number) |

| | |
|---|---|
| **11422 Miracle Hills Drive, Suite 300, Omaha, Nebraska** | **68154** |
| (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, 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 (check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | [ ] | Accelerated filer | [X] |
| Non-accelerated filer | [ ] (Do not check if a smaller reporting company) | | |
| 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 [X]

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 August 4, 2017** |
| --- | --- |
| Common Stock, $.01, par value | 14,416,040 shares |

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**PART I. Financial Information**

***Item 1. Financial Statements***

**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

**(In thousands, except par values)**

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,800 | $ 7,596 |
| Accounts receivable (net of allowance for doubtful accounts of $1,482 and $1,097, respectively) | 16,943 | 16,316 |
| Inventories: | | |
| Finished goods, net | 1,261 | 1,341 |
| Work in process | 418 | 247 |
| Raw materials and components, net | 5,285 | 4,975 |
| Total inventories, net | 6,964 | 6,563 |
| Recoverable income taxes | 1,041 | 672 |
| Deposit on equipment to be leased | 2,500 | — |
| Other current assets | 1,996 | 1,746 |
| Current assets held for sale | — | 188 |
| Total current assets | 32,244 | 33,081 |
| Property, plant and equipment (net of accumulated depreciation of $7,968 and $7,066, respectively) | 11,187 | 11,187 |
| Equity method investments | 18,134 | 13,098 |
| Intangible assets, net | 3,641 | 2,357 |
| Goodwill | 920 | 889 |
| Notes receivable | 1,669 | 1,669 |
| Deferred income taxes | — | 84 |
| Other assets | 165 | 74 |
| Total assets | $ 67,960 | $ 62,439 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 7,062 | $ 5,175 |
| Accrued expenses | 3,793 | 4,097 |
| Short-term debt | 2,500 | — |
| Current portion of long-term debt | 63 | — |
| Customer deposits/deferred revenue | 3,201 | 4,211 |
| Income tax payable | 198 | 108 |
| Current liabilities held for sale | — | 57 |

| | | |
|---|---|---|
| Total current liabilities | 16,817 | 13,648 |
| Long-term debt, net of current portion | 1,899 | — |
| Deferred revenue | 1,226 | 1,226 |
| Deferred income taxes | 2,704 | 1,841 |
| Other accrued expenses, net of current portion | 491 | 570 |
| Total liabilities | 23,137 | 17,285 |
| Stockholders' equity: | | |
| Preferred stock, par value $.01 per share; authorized 1,000 shares, none outstanding | — | — |
| Common stock, par value $.01 per share; authorized 25,000 shares; issued 17,210 and 17,047 shares at June 30, 2017 and December 31, 2016, respectively; 14,416 and 14,268 shares outstanding at June 30, 2017 and December 31, 2016, respectively | 169 | 169 |
| Additional paid-in capital | 40,121 | 39,758 |
| Accumulated other comprehensive income: | | |
| Foreign currency translation | (4,891) | (5,709) |
| Postretirement benefit obligations | 97 | 97 |
| Unrealized gain on available-for-sale securities of equity method investment | 315 | 136 |
| Retained earnings | 27,598 | 29,187 |
| | 63,409 | 63,638 |
| Less 2,794 and 2,779 of common shares in treasury, at cost at June 30, 2017 and December 31, 2016, respectively | (18,586) | (18,484) |
| Total stockholders' equity | 44,823 | 45,154 |
| Total liabilities and stockholders' equity | $ 67,960 | $ 62,439 |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Operations**

**Three and Six Months Ended June 30, 2017 and 2016**

**(In thousands, except per share data)**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net product sales | $12,917 | $14,862 | $25,493 | $26,597 |
| Net service revenues | 6,483 | 5,696 | 11,832 | 11,075 |
| Total net revenues | 19,400 | 20,558 | 37,325 | 37,672 |
| Cost of products sold | 10,429 | 11,280 | 20,817 | 20,038 |
| Cost of services | 3,697 | 3,129 | 6,795 | 6,249 |
| Total cost of revenues | 14,126 | 14,409 | 27,612 | 26,287 |
| Gross profit | 5,274 | 6,149 | 9,713 | 11,385 |
| Selling and administrative expenses: | | | | |
| Selling | 1,419 | 1,149 | 2,909 | 2,174 |
| Administrative | 4,688 | 3,037 | 8,234 | 6,135 |
| Total selling and administrative expenses | 6,107 | 4,186 | 11,143 | 8,309 |
| (Loss) income from operations | (833) | 1,963 | (1,430) | 3,076 |
| Other (expense) income: | | | | |
| Interest income | — | 27 | 22 | 40 |
| Interest expense | (28) | (27) | (38) | (40) |
| Foreign currency transaction loss | (107) | (180) | (104) | (1,005) |
| Change in value of marketable securities | — | 116 | — | (366) |
| Excess distribution from joint venture | — | 502 | — | 502 |
| Other income, net | 7 | 6 | 10 | 43 |
| Total other (expense) income | (128) | 444 | (110) | (826) |
| (Loss) earnings before income taxes and equity method investment (loss) income | (961) | 2,407 | (1,540) | 2,250 |
| Income tax expense | 776 | 653 | 2,269 | 1,337 |
| Equity method investment (loss) income | (212) | — | 2,269 | 41 |
| Net (loss) earnings from continuing operations | (1,949) | 1,754 | (1,540) | 954 |
| Net loss from discontinued operations, net of tax | (26) | (921) | (49) | (734) |
| Net (loss) earnings | $(1,975) | $833 | $(1,589) | $220 |
| Net (loss) earnings per share - basic | | | | |
| Net (loss) earnings from continuing operations | $(0.14) | $0.12 | $(0.11) | $0.07 |
| Net loss from discontinued operations | (0.00) | (0.06) | (0.00) | (0.05) |
| Net (loss) earnings | $(0.14) | $0.06 | $(0.11) | $0.02 |
| Net (loss) earnings per share - diluted | | | | |
| Net (loss) earnings from continuing operations | $(0.14) | $0.12 | $(0.11) | $0.07 |

| | | | | |
|---|---|---|---|---|
| Net loss from discontinued operations | (0.00) | (0.06) | (0.00) | (0.05) |
| Net (loss) earnings | $(0.14) | $0.06 | $(0.11) | $0.02 |

See accompanying notes to condensed consolidated financial statements.

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**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive (Loss) Income**

**Three and Six Months Ended June 30, 2017 and 2016**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net (loss) earnings | $(1,975) | $833 | $(1,589) | $220 |
| Currency translation adjustment: | | | | |
| Unrealized net change arising during period | 709 | 33 | 818 | 1,625 |
| Unrealized gain on available-for-sale securities of equity method investments, net of tax | 181 | 21 | 179 | 21 |
| Total other comprehensive income | 890 | 54 | 997 | 1,646 |
| Comprehensive (loss) income | $(1,085) | $887 | $(592) | $1,866 |

See accompanying notes to condensed consolidated financial statements.

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**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2017 and 2016**

**(In thousands)**

**(Unaudited)**

| | Six Months Ended June 30, 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) earnings | $(1,589) | $220 |
| Net loss from discontinued operations, net of tax | 49 | 734 |
| Net (loss) earnings from continuing operations | (1,540) | 954 |
| Adjustments to reconcile net (loss) earnings from continuing operations to net cash used in operating activities: | | |
| Provision for doubtful accounts | 418 | (44) |
| Provision for obsolete inventory | (175) | 47 |
| Provision for warranty | 171 | 171 |
| Depreciation and amortization | 1,004 | 1,127 |
| Equity method investment income | (2,269) | (41) |
| Unrealized loss on marketable securities | — | 366 |
| Deferred income taxes | 913 | (146) |
| Stock-based compensation expense | 330 | 244 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (935) | (2,684) |
| Inventories | (170) | (522) |
| Other current assets | (247) | (321) |
| Accounts payable | 2,497 | 1,361 |
| Accrued expenses | (438) | 358 |
| Customer deposits/deferred revenue | (1,023) | (570) |
| Current income taxes | (247) | (1,620) |
| Other assets | (474) | (124) |
| Net cash flows from operating activities – continuing operations | (2,185) | (1,444) |
| Net cash flows from operating activities – discontinued operations | (146) | (2,724) |
| Net cash used in operating activities | (2,331) | (4,168) |
| Cash flows from investing activities: | | |
| Purchase of equity securities | (2,525) | (3,764) |
| Dividends received from investee in excess of cumulative earnings | 103 | 103 |
| Capital expenditures | (2,103) | (653) |
| Proceeds from sale of business | 60 | — |
| Net cash used in investing activities | (4,465) | (4,314) |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 2,000 | — |
| Payment of debt issuance costs | (36 ) | — |
| Principal payments on long-term debt | (2 ) | — |
| Purchase of treasury stock | (102 ) | (133 ) |
| Proceeds from exercise of stock options | 33 | 53 |
| Payments on capital lease obligations | (134 ) | (159 ) |
| Excess tax benefits from share-based arrangements | — | 6 |
| Net cash provided by (used in) financing activities – continuing operations | 1,759 | (233 ) |
| Effect of exchange rate changes on cash and cash equivalents –continuing operations | 66 | 916 |
| Effect of exchange rate changes on cash and cash equivalents – discontinued operations | — | (69 ) |
| Net decrease in cash and cash equivalents | (4,971 ) | (7,868 ) |
| Discontinued operations cash activity included above: | | |
| Add: Cash balance included in assets held for sale at beginning of period | 175 | 4,208 |
| Less: Cash balance included in assets held for sale at end of period | — | (1,415 ) |
| Cash and cash equivalents at beginning of period | 7,596 | 17,862 |
| Cash and cash equivalents at end of period | $2,800 | $12,787 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Issuance of short-term progress payment note payable (See Note 9) | $2,500 | $— |

See accompanying notes to condensed consolidated financial statements.

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**Ballantyne Strong, Inc. and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

## 1. Nature of Operations

Ballantyne Strong, Inc. ("Ballantyne" or the "Company"), a Delaware corporation, is a holding company with diverse business activities focused on serving the cinema, retail, financial, and government markets. The Company, and its wholly owned subsidiaries Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Convergent Corporation, and Convergent Media Systems Corporation ("Convergent" or "CMS"), design, integrate, and install technology solutions for a broad range of applications; develop and deliver out-of-home messaging, advertising and communications; manufacture projection screens; and provide managed services including monitoring of networked equipment to our customers. On November 4, 2016, Strong Westrex (Beijing) Technology Inc. ("SWBTI"), a subsidiary of Strong Westrex, Inc. ("SWI"), was sold, and on May 17, 2017, SWI was sold (see Note 2).

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

## 2. Discontinued Operations

On June 23, 2016, the Company's Board of Directors approved a plan to pursue a sale of the operations conducted by its subsidiaries SWBTI and SWI (the "China Operations") which have historically been included in the Cinema segment. The purpose of the plan was to focus the efforts of the Company on the business units that have opportunities for higher return on invested capital. We reflected the results of the China Operations as discontinued operations for all periods presented. The assets and liabilities of the China Operations have been reclassified as assets and liabilities held for sale in the condensed consolidated balance sheets for all periods presented.

On November 4, 2016, the Company sold SWBTI to GABO Filter, Inc. for total proceeds of $0.4 million. On May 17, 2017, SWI was sold for total proceeds of $0.1 million. The Company recorded an insignificant gain on the sale of SWI.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Total net revenues | $12 | $2,435 | $24 | $5,857 |
| Total cost of revenues | 22 | 2,899 | 48 | 5,791 |
| Total selling and administrative expenses | 43 | 346 | 53 | 706 |
| Loss from operations of discontinued operations | (53) | (810) | (77) | (640) |
| Loss before income taxes | (26) | (807) | (49) | (620) |
| Income tax expense | — | (114) | — | (114) |
| Net loss from discontinued operations, net of tax | $(26) | $(921) | $(49) | $(734) |

Depreciation and amortization related to discontinued operations was immaterial for the three and six month periods ended June 30, 2017 and 2016. There were no capital expenditures related to discontinued operations for the six months ended June 30, 2017 and 2016.

**3. Summary of Significant Accounting Policies**

***Basis of Presentation and Principles of Consolidation***

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

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company’s Annual Report on Form 10-K/A. 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/A for the fiscal year ended December 31, 2016.

The condensed consolidated balance sheet as of December 31, 2016 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.

During the second quarter of 2017, the Company began classifying software in development as an intangible asset rather than property, plant and equipment, to be consistent with its classification of software assets in service. Accordingly, approximately $0.5 million of software in development at December 31, 2016 was reclassified to intangible assets from property, plant and equipment on the condensed consolidated balance sheet to conform to the current period presentation. This reclassification had no effect on the Company's reported results of operations, comprehensive income, or cash flows.

***Use of Management Estimates***

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

***Marketable Securities***

For the six months ended June 30, 2016, the Company's marketable securities were comprised of investments in the common stock of a publicly traded company. Changes in fair value, based on the market price of the investee's stock, were recognized in other income in the condensed consolidated statement of operations. The Company used the fair value option to account for the investment to more appropriately recognize the value of this investment in our condensed consolidated financial statements since the Company did not exert significant influence over the investment, in which case the equity method of accounting would have been applied. None of the Company's investments were classified as marketable securities or accounted for using the fair value option during the six months ended June 30, 2017.

***Equity Method Investments***

We apply the equity method of accounting to investments when we have significant influence, but not controlling interest in the investee. Judgment regarding the level of influence over each equity method investment includes considering key factors such as ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. The Company's proportionate share of the net (loss) income resulting from these investments is reported under the line item captioned "equity method investment (loss) income" in our condensed consolidated statements of operations. The carrying value of our equity method investments is reported in equity method investments in the condensed consolidated balance sheets. The Company's equity method investments are reported initially at cost and adjusted each period for the Company's share of the investee's income or loss and dividend paid, if any. The Company's share of the investee's income or loss is recorded on a one quarter lag for all equity method investments. The Company classifies distributions received from equity method investments using the cumulative earnings approach on the condensed consolidated statements of cash flows. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. The Company did not record any impairments related to its investments during the three and six month periods ended June 30, 2017 or 2016. Note 5 contains additional information on our equity method investments, which are held by the Company's Cinema segment.

***Fair Value of Financial Instruments***

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

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

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

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

The following tables present the Company's financial assets measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of June 30, 2017 and December 31, 2016.

Fair values measured on a recurring basis at June 30, 2017 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $2,800 | $ — | $— | $2,800 |
| Notes receivable | — | — | 1,669 | 1,669 |
| Total | $2,800 | $ — | $1,669 | $4,469 |

Fair values measured on a recurring basis at December 31, 2016 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $7,596 | $ — | $— | $7,596 |
| Notes receivable | — | — | 1,669 | 1,669 |
| Total | $7,596 | $ — | $1,669 | $9,265 |

Quantitative information about the Company's level 3 fair value measurements at June 30, 2017 is set forth below:

| | **Fair Value at 6/30/2017** (in thousands) | Valuation Technique | Unobservable input | Range |
|---|---|---|---|---|
| Notes receivable | $ 1,669 | Discounted cash flow | Probability of default | 53 % |
| | | | Discount rate | 18 % |

The notes receivable are recorded at estimated fair value at June 30, 2017.

The significant unobservable inputs used in the fair value measurement of the Company's notes receivable are discount rate and probability of default. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. There were no changes in the fair value of the Company's notes receivable recorded during the three and six months ended June 30, 2017 or 2016.

The Company's short-term and long-term debt are recorded at historical cost. As of June 30, 2017, the Company's long-term debt, including current maturities, had a carrying value of $2.0 million. Based on discounted cash flows using current quoted interest rates (Level 2 of the fair value hierarchy), the estimated fair value at June 30, 2017 was $2.0 million.

The carrying values of all other financial assets and liabilities, including accounts receivable, accounts payable, accrued expenses, and short-term debt, reported in the condensed consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the six months ended June 30, 2017, the Company did not have any significant non-recurring measurements of non-financial assets or liabilities.

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance is effective for the Company beginning January 1, 2018. An entity may adopt this ASU either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the ASU. The Company has obtained an understanding of ASU 2014-09 and has begun to analyze the impact of the new standard on its financial results. The Company has completed a high-level assessment of the attributes within its contracts for its major products and services, and has started assessing potential impacts to its internal processes, control environment, and disclosures. The Company expects to adopt this ASU through a cumulative effect adjustment as of January 1, 2018. While the Company has not yet quantified the impact that the adoption of ASU 2014-09 will have on the consolidated financial statements, the Company is continuing to evaluate the impact of the new standard on our financial results and other possible impacts. The Company will continue to provide enhanced disclosures as we continue our assessment.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory". ASU 2015-11 requires an entity utilizing the first in-first out inventory method to change their measurement principle for inventory changes from the lower of cost or market to lower of cost or net realizable value. The Company prospectively adopted the guidance effective January 1, 2017. The adoption of ASU 2015-11 did not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 requires equity investments that do not result in consolidation and are not accounted under the equity method to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets; and modifies certain fair value disclosure requirements. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is not permitted. The adoption of ASU 2016-01 is not expected to have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". ASU 2016-02 requires lessees to recognize a lease liability and a right-to-use asset for all leases, including operating leases with a term greater than twelve months, on its balance sheet. This ASU is effective in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires a modified retrospective transition method. The Company is evaluating the requirements of ASU 2016-02 and its potential impact on the Company's financial statements. The Company has leases primarily for property and equipment and is in the process of identifying and evaluating these leases for purposes of ASU 2016-02. For each of these leases, the term will be evaluated, including extension and renewal options as well as the lease payments. While the Company has not yet quantified the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements, the Company expects to record assets and liabilities on its balance sheet upon adoption of this standard, which may be material. The Company will continue to provide enhanced disclosures as it continues its assessment.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 simplifies accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, and certain classifications on the statement of cash flows. The Company adopted the guidance effective January 1, 2017 on a prospective basis. Additionally, as required by ASU 2016-09, when calculating diluted earnings per share, excess tax benefits were excluded from the calculation of assumed proceeds since such amounts are recognized in the income statement. The Company applied the cash flow presentation requirements prospectively, and the 2016 statement of cash flows was not adjusted. ASU 2016-09 also allows an entity to elect as an accounting policy either to estimate the total number of awards for which the requisite service period will not be rendered or to account for forfeitures for service-based awards as they occur. The Company has elected to account for forfeitures as they occur.

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

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which eliminates the diversity in practice related to eight cash flow classification issues. The Company adopted this ASU in the first quarter of 2017 on a prospective basis. Adoption affected the classification of dividends received from equity method investees on the statement of cash flows, but did not have any other impact.

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average shares outstanding (in thousands): | | | | |
| Basic weighted average shares outstanding | 14,263 | 14,213 | 14,264 | 14,208 |
| Dilutive effect of stock options and certain non-vested shares of restricted stock | — | 80 | — | 87 |
| Diluted weighted average shares outstanding | 14,263 | 14,293 | 14,264 | 14,295 |

For each of the three and six month periods ended June 30, 2017, options to purchase 445,000 shares of common stock were outstanding but were not included in the computation of diluted loss per share as the option's exercise price was greater than the average market price of the common shares for the each period. An additional 156,606 and 176,479 common stock equivalents related to options and restricted stock awards were excluded for the three and six months ended June 30, 2017, respectively, as their inclusion would be anti-dilutive, thereby decreasing the net losses per share. For the three and six month periods ended June 30, 2016, options to purchase 350,000 and 430,000 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. An additional 79,167 and 87,387 common stock equivalents related to options and restricted stock awards were excluded from the calculation of diluted net loss per share from discontinued operations for the three and six months ended June 30, 2016, respectively, as their inclusion would be anti-dilutive, thereby decreasing the net losses per share.

**5. Equity Method Investments**

The following summarizes our equity method investments: