BALLANTYNE STRONG, INC.
Form SC 13D
September 03, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13D

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE 13d-1(a)

AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13d-2(a)

Under the Securities Exchange Act of 1934

(Amendment No. ____)*

BALLANTYNE STRONG, INC.
(Name of Issuer)

Common Stock, par value $0.01 per share
(Title of Class of Securities)

058516105
(CUSIP Number)

D. Kyle Cerminara

Fundamental Global Investors, LLC

4201 Congress Street, Suite 140

Charlotte, North Carolina 28209

(704) 323-6851

With a copy to:

Derek D. Bork

Thompson Hine LLP

3900 Key Center

127 Public Square

Cleveland, Ohio 44114

(216) 566-5500

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

August 25, 2014
(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box ¨.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. *See* § 240.13d-7 for other parties to whom copies are to be sent.

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* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see* the *Notes*).

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1	NAME OF REPORTING PERSON **Fundamental Global Partners, LP**	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) ¨ (b) ¨
3	SEC USE ONLY	
4	SOURCE OF FUNDS **WC**	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)	¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION	

	Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER **0**
		8	SHARED VOTING POWER **505,672**
		9	SOLE DISPOSITIVE POWER **0**
		10	SHARED DISPOSITIVE POWER **505,672**
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY REPORTING PERSON **505,672**		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	¨	

13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) **3.6%**
14	TYPE OF REPORTING PERSON **PN**

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1	NAME OF REPORTING PERSON **Fundamental Global Partners Master Fund, LP**	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) ¨ (b) ¨
3	SEC USE ONLY	
4	SOURCE OF FUNDS **WC**	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)	¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION	

	Cayman Islands		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER **0**
		8	SHARED VOTING POWER **587,038**
		9	SOLE DISPOSITIVE POWER **0**
		10	SHARED DISPOSITIVE POWER **587,038**
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY REPORTING PERSON **587,038**		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	¨	

13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) **4.1%**
14	TYPE OF REPORTING PERSON **PN**

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1	NAME OF REPORTING PERSON **Fundamental Global Partners GP, LLC**	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) ¨ (b) ¨
3	SEC USE ONLY	
4	SOURCE OF FUNDS **AF**	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)	¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION	

	North Carolina	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**7**	SOLE VOTING POWER **0**
	8	SHARED VOTING POWER **505,672**
	9	SOLE DISPOSITIVE POWER **0**
	10	SHARED DISPOSITIVE POWER **505,672**
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY REPORTING PERSON **505,672**	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ¨	

13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) **3.6%**
14	TYPE OF REPORTING PERSON **OO**

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1	NAME OF REPORTING PERSON **FG Partners GP, LLC**
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) ¨ (b) ¨
3	SEC USE ONLY
4	SOURCE OF FUNDS **AF**
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e) ¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION

	Florida		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**7**	SOLE VOTING POWER **0**	
	8	SHARED VOTING POWER **587,038**	
	9	SOLE DISPOSITIVE POWER **0**	
	10	SHARED DISPOSITIVE POWER **587,038**	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY REPORTING PERSON **587,038**		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	¨	
13	PERCENT OF CLASS		

	REPRESENTED BY AMOUNT IN ROW (11)
	4.1%
14	TYPE OF REPORTING PERSON
	OO

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1	NAME OF REPORTING PERSON **Fundamental Global Investors, LLC**
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) ¨ (b) ¨
3	SEC USE ONLY
4	SOURCE OF FUNDS **AF**
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED¨ PURSUANT TO ITEM 2(d) or 2(e)
6	CITIZENSHIP OR PLACE OF ORGANIZATION

	North Carolina		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER **0**
		8	SHARED VOTING POWER **1,092,710**
		9	SOLE DISPOSITIVE POWER **0**
		10	SHARED DISPOSITIVE POWER **1,092,710**
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY REPORTING PERSON **1,092,710**		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ¨		

13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) **7.7%**
14	TYPE OF REPORTING PERSON **OO**

Item 1. Security and Issuer.

This Statement relates to the Common Stock, par value $0.01 per share (the “Common Stock”), of Ballantyne Strong, Inc., a Delaware corporation (the “Company”). The Company reports that its principal executive offices are located at 13710 FNB Parkway, Suite 400, Omaha, Nebraska 68154.

Item 2. Identity and Background.

This Statement is filed by (i) Fundamental Global Partners, LP (the “Fund”), a Delaware limited partnership, with respect to the Common Stock directly owned by it, (ii) Fundamental Global Partners Master Fund, LP (the “Master Fund”), a Cayman Islands exempted limited partnership, with respect to the Common Stock directly owned by it, (iii) Fundamental Global Partners GP, LLC (the “General Partner”), a North Carolina limited liability company, as the general partner of the Fund, (iv) FG Partners GP, LLC (the “Master Fund General Partner”), a Florida limited liability company, as the general partner of the Master Fund, and (v) Fundamental Global Investors, LLC (the “Investment Manager”), a North Carolina limited liability company, as the investment manager for the Fund and the Master Fund.

Mr. D. Kyle Cerminara is the Chief Executive Officer, Partner and Manager of the Investment Manager and Partner and Manager of the General Partner. Mr. Lewis M. Johnson is the President, Partner and Manager of the Investment Manager and Partner and Manager of the General Partner. Mr. Joseph H. Moglia is Chairman and Partner of the Investment Manager and Partner of the General Partner. Mr. D. Kyle Cerminara and Mr. Lewis M. Johnson are the sole managers of the Master Fund General Partner.

Each of the Fund, the Master Fund, the General Partner, the Master Fund General Partner, the Investment Manager and Messrs. Cerminara, Johnson and Moglia is referred to herein as a “Reporting Person” and collectively as the “Reporting Persons.” The Reporting Persons are filing this Statement jointly. Neither the fact of this filing nor anything contained herein shall be deemed to be an admission by any of the Reporting Persons that they constitute a “group.”

The principal business of the Fund is serving as a private investment fund. The principal business of the Master Fund is serving as a private investment fund. The principal business of the General Partner is to provide investment advisory and management services to private investment funds, including the Fund. The General Partner has delegated the management of the Fund’s investment program to the Investment Manager. The principal business of the Master Fund General Partner is to provide investment advisory and management services to private investment funds, including the Master Fund. The Master Fund General Partner has delegated the management of the Master Fund’s investment program to the Investment Manager. The principal business of the Investment Manager is to provide investment advisory services, including to the Fund and the Master Fund. The principal occupation of Messrs. Cerminara and Johnson is serving as investment managers and advisors. The principal occupation of Mr. Moglia is serving as Chairman of the Investment Manager, Chairman of TD Ameritrade, and Head Football Coach for Coastal Carolina University. Each of Messrs. Cerminara, Johnson and Moglia is a U.S. citizen. The business address of each of the Fund, the General Partner, the Investment Manager and Messrs. Cerminara, Johnson and Moglia is 4201 Congress Street, Suite 140, Charlotte, North Carolina 28209. The business address of the Master Fund is c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands. The business address of the Master Fund General Partner is 9045 Strada Stell Court, Suite 106, Naples, Florida 34109.

None of the Reporting Persons or any of their partners, managers, officers or other controlling persons has, during the last five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

None of the Reporting Persons or any of their partners, managers, officers or other controlling persons has, during the last five years, been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

The total cost for purchasing the Common Stock reported as owned by Fundamental Global Partners, LP and Fundamental Global Partners Master Fund, LP in this Statement, including brokerage commissions, was approximately $4,475,792.09.

Item 4. Purpose of Transaction.

The Reporting Persons acquired the Common Stock reported in this Statement for investment purposes. The Reporting Persons may in the future acquire additional shares of Common Stock or dispose of some or all of the shares of Common Stock held by the Reporting Persons in open-market transactions or privately negotiated transactions, on such terms and at such times as the Reporting Persons may deem advisable. The Reporting Persons may engage in short selling or hedging or similar transactions with respect to the Common Stock, on such terms and at such times as the Reporting Persons may deem advisable.

None of the Reporting Persons has any present plan or proposal that would result in any of the actions described in paragraphs (a) through (j) of Item 4 of Schedule 13D. The Reporting Persons reserve the right in the future to formulate any such plans or proposals, and to take any actions with respect to their investments in the Company, including any or all of the actions described in paragraphs (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

(a) The Reporting Persons beneficially own in the aggregate 1,092,710 shares of Common Stock, which represents approximately 7.7% of the Company's outstanding shares of Common Stock.

Each of Fundamental Global Partners, LP and Fundamental Global Partners Master Fund, LP directly holds the number and percentage of shares of Common Stock disclosed as beneficially owned by it in the applicable table set forth on the cover page to this Statement. None of the other Reporting Persons directly hold any of the shares of Common Stock disclosed in this Statement.

Each percentage ownership of shares of Common Stock set forth in this Statement is based on the 14,181,222 shares of Common Stock reported by the Company as outstanding as of August 5, 2014 in its Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 8, 2014.

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The General Partner, as general partner to the Fund, and the Investment Manager, as the investment manager to the Fund, may be deemed to be beneficial owners of the shares of Common Stock disclosed as directly owned by the Fund in this Statement. The Master Fund General Partner, as general partner to the Master Fund, and the Investment Manager, as the investment manager to the Master Fund, may be deemed to be beneficial owners of the shares of Common Stock disclosed as directly owned by the Master Fund in this Statement. As principals of the General Partner, the Master Fund General Partner and/or the Investment Manager, Messrs. Cerminara, Johnson and Moglia may be deemed to be beneficial owners of the shares of Common Stock disclosed as directly owned by the Fund and the Master Fund in this Statement. Each of the General Partner, the Master Fund General Partner, the Investment Manager and Messrs. Cerminara, Johnson and Moglia expressly disclaim beneficial ownership of the Fund's and the Master Fund's shares of Common Stock.

(b) The Fund beneficially owns, and has the shared power to direct the voting and disposition of, the shares of Common Stock disclosed as beneficially owned by the Fund in the applicable table set forth on the cover page to this Statement. The Master Fund beneficially owns, and has the shared power to direct the voting and disposition of, the shares of Common Stock disclosed as beneficially owned by the Master Fund in the applicable table set forth on the cover page to this Statement. The General Partner, as the general partner of the Fund, has the shared power to direct the voting and disposition of the shares of Common Stock held by the Fund. The Master Fund General Partner, as the general partner of the Master Fund, has the shared power to direct the voting and disposition of the shares of Common Stock held by the Master Fund. The Investment Manager, as the investment manager of the Fund and the Master Fund, has the shared power to direct the voting and disposition of the shares of Common Stock held by the Fund and the Master Fund. Messrs. Cerminara, Johnson and Moglia, as principals of the General Partner, the Master Fund General Partner and/or the Investment Manager, may also be deemed to have the shared power to direct the voting and disposition of the shares of Common Stock held by the Fund and the Master Fund.

(c) The transactions effected by each of the Reporting Persons in the Common Stock during the past 60 days are set forth on Schedule A to this Statement. Each of these transactions was effected through the open market. In addition, on July 24, 2014, the Fund transferred 343,239 shares of Common Stock to the Master Fund for a purchase price of $3.85 per share.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

Pursuant to Rule 13d-1(k) promulgated under the Securities Exchange Act of 1934, as amended, the Reporting Persons have entered into an agreement with respect to the joint filing of this Statement, which agreement is set forth on the signature page to this Statement.

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SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, the undersigned certify that the information set forth in this Statement is true, complete and correct.

In accordance with Rule 13d-1(k)(1)(iii) under the Securities Exchange Act of 1934, as amended, the persons named below agree to the joint filing on behalf of each of them of this Statement on Schedule 13D with respect to the Common Stock of the Company.

Dated: September 2, 2014

FUNDAMENTAL
GLOBAL PARTNERS,
LP,
by Fundamental Global
Partners GP, LLC, its
general partner

/s/ D. Kyle Cerminara
D. Kyle Cerminara
Partner and Manager

FUNDAMENTAL
GLOBAL PARTNERS
MASTER FUND, LP,
by FG Partners GP, LLC,
its general partner

/s/ D. Kyle Cerminara
D. Kyle Cerminara
Manager

FUNDAMENTAL
GLOBAL PARTNERS GP,
LLC

/s/ D. Kyle Cerminara
D. Kyle Cerminara
Partner and Manager

FG PARTNERS GP, LLC

/s/ D. Kyle Cerminara
D. Kyle Cerminara
Manager

FUNDAMENTAL
GLOBAL INVESTORS,
LLC

/s/ D. Kyle Cerminara
D. Kyle Cerminara
Chief Executive Officer,
Partner and Manager

/s/ D. Kyle Cerminara
D. Kyle Cerminara

/s/ Lewis M. Johnson
Lewis M. Johnson

/s/ Joseph H. Moglia
Joseph H. Moglia

Schedule A

Transactions by Fundamental Global Partners, LP and Fundamental Global Partners Master Fund, LP

in the Common Stock in the past 60 days:

Fundamental Global Partners, LP:

Transaction Date	Number of Shares Bought/(Sold)	Price Per Share ($)
07/07/2014	(4,850)	4.072800
07/09/2014	(37,202)	3.841000
07/16/2014	(13,100)	3.950400
07/25/2014	4,272	3.875528
07/29/2014	288	3.850000
07/30/2014	7,968	3.883519
07/31/2014	3,575	3.862755
08/04/2014	(2,417)	3.725721
08/11/2014	12,454	3.937572
08/25/2014	768	3.796685
08/26/2014	24,323	3.954207
08/27/2014	20,526	4.171723
08/28/2014	46,098	4.359411
08/29/2014	87,358	4.571782

Fundamental Global Partners Master Fund, LP:

Transaction Date	Number of Shares Bought/(Sold)	Price Per Share ($)
07/23/2014	1,000	3.875480
07/24/2014	3,800	3.849621
07/28/2014	2,600	3.937114
07/29/2014	312	3.850000
07/30/2014	9,032	3.883237
07/31/2014	6,425	3.864720
08/04/2014	(2,619)	3.725720
08/11/2014	14,322	3.938402
08/13/2014	700	4.011229
08/21/2014	100	3.850000

08/25/2014	9,232	3.796701
08/26/2014	26,351	3.954208
08/27/2014	22,234	4.171726
08/28/2014	49,943	4.359407
08/29/2014	94,639	4.571782

lletin No. 104, "Revenue Recognition" ("SAB 104"). SAB 104 clarifies existing guidance regarding revenue recognition. The Company's adoption of SAB 104 did not have an impact on its consolidated results of operations, financial position or cash flows. In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," ("Statement 150"). Statement 150 establishes standards for issuer classification and measurement of certain financial instruments with characteristics of both liabilities and equity. In accordance with this standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This statement is effective for all financial instruments entered into or modified after May 31, 2003, with certain exceptions. The Company's adoption of Statement 150 did not have an impact on results of operations, financial position or cash flows. In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," that amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement is effective for contracts and hedging relationships entered into or modified after June 30, 2003, with certain exceptions. The Company's adoption of SFAS No. 149 did not have an impact on financial position or results of operations or cash flows. In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"). FIN 46 requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. FIN 46 is effective for the first quarter of 2004. The Company does not expect its adoption of FIN 46 to have an impact on consolidated results of operations, financial position or cash flows In December 2002, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment of SFAS No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. This statement is effective for financial statements for fiscal years ending after December 15, 2002. SFAS No. 148 has not had any impact on the Company's F-10 financial statements as management uses the fair value of goods and services received to determine the number of shares to issue. Note 2 Business Combinations The Company's business combinations have been accounted for using the purchase method and, accordingly, the total purchase price of each acquired company was allocated to the tangible assets and liabilities and identifiable intangible assets based on their estimated fair values as of the closing date of the acquisition. The excess purchase price over the fair value is recorded as goodwill. Results of operations for the acquired companies are included prospectively from the date of acquisition. In December 2003 the Company acquired the assets of Debit Card Marketing Company Enterprises, Inc for 60,000,000 shares of Global Debit Cash Card, Inc. a subsidiary of the Company, which included reduction of the note owed by the Company to $515,000 that was transferred as an asset to Global Debit Cash Card, Inc. In August 2003 the Company acquired Alpha Tooling, Inc. with 190,000 shares of DCM Enterprises, Inc stock, as per the agreement with DCM Enterprises, Inc. The Company then transferred Alpha Tooling, Inc to DCM Enterprises, Inc for credit towards the debit it had with DCM Enterprises, Inc. After October 1st 2003 the transaction was changed by agreement to an Asset assignment. The Company assigned certain assets of Alpha Tooling for credit of $311,639 which reduced the debt owed to DCM Enterprises, Inc from $760,000 to $448,361. The Company retained the Alpha Tooling

Corporation which had assets of $42,050 (which were not assigned to DCM Enterprises, Inc.), and debt of $351,306. In June 2002 the Company announced the sale of Ace Optics, a subsidiary of Guarantee Capital Group, to CRT Corporation for $2,000,000 worth of CRT restricted stock (2,000,000 shares). In June 2002 the Company announced plans to divest itself of the Guarantee Capital Group subsidiary, and in anticipation of that occurrence ceased operations of the on-line mortgage lending group. In February 2002 the Company announced plans to spin-off Global Construction Buying Group to its shareholders by the year end. This transaction was never completed. In September 2001 the Company started Guarantee Capital Group, which acquired the computer, furniture and processing equipment from the new owner of Atlas Capital Corporation for $30,000. In November 2001 Guarantee Capital Group had exceeded the capacity of its mortgage banking line. This prevented the funding of the balance of its processed loans and resulted in most of the employees being laid off. The Company ceased the operation of Guarantee in June 2002. In September 2001 the Company started a new marketing subsidiary 1st2 Market Incorporated and ceased operating its predecessor, Allstates Communications Inc. The new subsidiary only markets the Company's products whereas Allstates marketed cell phones for cellular phone companies. In March 2001, the Company ceased to operate Global GPP Corporation and closed its corresponding operation in Europe. The Company started a new corporation, Global Construction Buying Group, a wholly owned subsidiary, whose main asset is the equipment acquired from Global GPP Corporation. In October 2000, the Company signed an acquisition agreement with Auction-Sales.Com. The Company invested $180,000 in Auction-Sales.Com and in December 2000 rescinded the acquisition due to undisclosed debts. The Company sued for the return of the funds and the case was remanded to arbitration. The Company lost the arbitration and wrote off the $180,000 investment. In October 2000, the Company acquired the auction website operations of the Sonic Auction Company for a purchase price of approximately $5,000. With this acquisition the Company acquired a database and a functioning web auction site. The Company issued 500,000 shares of restricted common stock to acquire Sonic Auction Company. This site ceased operations in March of 2001. F-11 In April 2000, the Company acquired all the outstanding stock of Atlas Capital Corporation, a mortgage-banking company, for 600,000 shares of restricted common stock valued at $6,000. In connection with the acquisition, the Company acquired assets of approximately $3,183,000 and assumed liabilities of approximately $3,179,000. The difference of $260,000 was recorded as intangible assets related to acquisition of trade names, websites, and workforce-in-place and is being amortized over 5 years. In August 2001 the company sold Atlas Capital Corporation with its assets and liabilities. In March 2000, the Company acquired the assets and assumed certain liabilities of Internet 2xtreme, an Internet Service Provider based in northern California. The total purchase price was $735,000, which consisted of $17,635 cash and 124,589 shares of restricted common stock valued at $186,888. In connection with the acquisition, the Company recorded intangible assets of approximately $666,000, which consisted of approximately 4,800 customer accounts, website and workforce-in-place, which are being amortized over 5 years. In March 2000, the Company acquired 80% of the outstanding shares of Global GPP for $500,000. Global GPP owns a business-to-business website, equipment and has strategic agreements with IBM Hungary to market business-to-business services in Eastern Europe. In February 2000, the Company acquired the assets and assumed certain liabilities of Direct Communications, Inc., a wireless communications company. In addition to assuming certain liabilities, the Company paid $80,000 cash and issued 30,000 shares of restricted company stock valued at $300. Intangible assets purchased totaled $265,000, consisting of customer lists, website and workforce-in-place and is being amortized over 5 years. These assets and liabilities were transferred to the newly formed and wholly owned subsidiary of the Company, Allstates Communications Inc. In December 1999 the Company entered into a service agreement to market its services on the Internet for 6,000,000 shares of common stock valued at $60,000. In November 1999, the Company acquired an E Commerce website Optical Brigade, an on-line sunglass distribution website, for 50,500 shares of restricted common stock valued at $50,500. In August 1999, the Company acquired the website, Net 2 Loan, an on-line loan processing website, for 400,000 shares of restricted common stock valued at $4,000. In July 1999 the Company acquired MBM Capital Group for $72,000 and 112,667 shares of restricted common stock valued at $1,127. MBM was sold during the fiscal year of acquisition for a $150,000 note. After the sale MBM ceased operations and the Company considers the note valueless. In June 1999, the Company acquired the assets of L.A. Internet, a southern California-based Internet Service Provider, which included customer accounts, trade name, websites, etc. for $545,000 in exchange for a reduction of the Note Receivable from Iron Horse Holdings, Inc. (see Preferred Stock Note 6). Note 3 Certain Financial Statement Information June 30, 2004 ---------------- Investment: Stock of PMCC/GNVN $ 107,692 Stock of DCM Enterprises 88 ---------------- Total Long Term

Investments $ 107,780 ================= Property and equipment: Office furniture and equipment $ 146,683 Machinery and computer equipment 12,809 Less: accumulated depreciation (122,282) ---------------- Property and equipment, net $ 37,210 ================= Intangible assets: Web Sites 3,000 Computer Programs 3,772 Purchase of Territory Marketing Agreement 515,000 Less: accumulated amortization (25,750) ---------------- Intangible assets, net $ 496,022 ================= F-12 Note 4. Note Payable Note payable as of June 30, 2004 consists of the following: Note payable Windsor Professional Plaza LLC. Note Payable - Windsor Professional Plaza LLC $333,337 ------- Total $ 333,377 The note payable bears interest at prime plus 4% and is due May 14, 2006. Interest is payable quarterly. The note is secured by series A convertible preferred stock. See note 7 Preferred Stock. This note is currently in default which per legal counsel allows the note holder to convert the preferred stock to common stock. Note 5. Going Concern The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the company as a going concern. The Company has experienced significant losses. As of June 30, 2004 the current liabilities exceed current assets by $3,576,279. As shown in the financial statements, the Company incurred a net loss of $5,792,976 for the fiscal year ended June 30, 2004. The future success of the Company is dependent on its ability to obtain additional capital to develop its proposed products and ultimately, upon its ability to attain future profitable operations. The Company has obtained financing for the expansion of its current operations through Blue Bear Funding formerly 1st American Factoring, LLC, and has a funding line though Windsor Plaza Funding LLC and KFG LLC and the Company has also established a Creditor Trust to pay off debts from the previous operations. Note 6 - Related Party Transactions During the fiscal year ended June 30, 2004 the Company entered into several transactions with David Karst, a shareholder, and several companies he owns as follows: David Karst on behalf of Windsor Professional Plaza LLC controlled 1,029,231 shares of convertible preferred stock. The stock is convertible into 10,292,310,000 shares of common stock which would give David Karst control of the Company if all the shares were converted. During May and June 2004 54,626shares of preferred stock were converted into 546,260,000 common shares and used to pay expenses of the Company. Additional conversions resulting in the issuance of 1,000,000,000 common shares were done in August and September 2004 to pay the Company's operating expenses. During June 2004, the Company cancelled 71,966 shares of preferred stock because they would have converted into an amount of shares in excess of those authorized. The Company borrowed $333,377 from Windsor Professional Plaza, LLC - See Note 4. F-13 The Company appointed KFG LLC as the Trustee for the Creditor Trust - See Note 13. The Company appointed Financial Services LLC as the Creditor Trust - Trust Protector - See Note 13. Subsequent to June 30, 2004, Skyy Fi entered into a factoring and Security Agreement with 1st American Factoring a/k/a Blue Bear Funding, a sister Company of Financial Services LLC. The Company has entered into various transactions with entities affiliated with its President as follows: The President of the Company is also the CEO and Director of DCM Enterprises, Inc. See Note 11 for details of the various transactions between the Company and DCM Enterprises. The President of the Company is an officer of Global Debit Cash Card, Inc. ("GDCC"). The Company during 2004 acquired marketing rights from GDCC for cash and stock consideration valued at $515,000. During 2004 the Company issued 13,000,000 common shares to children of its president for consulting services rendered. Note 7. Stockholders' Equity Authorized Shares During April 2003 the board of directors amended the articles of incorporation to increase the authorized to 10,000,000,000 shares of which 9,990,000,000 are common shares and 10,000,000 are preferred. The shares were initially increased in April 2003 to 2,000,000, and the balance was issued in April 2004. The Company does not have enough Authorized shares to issue in the event of the conversion of all of it's preferred stock outstanding. Stock Issuance During fiscal year ended June 30, 2004, the following stock was issued: 495,000,000 shares were issued for payment in full on a note owed by the Company for past due wages. 546,260,000 shares of common stock were issued per the conversion of preferred stock into common, pursuant to the agreement with Windsor Professional Plaza, LLC. 136,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form S-8 registration statement 156,390,807 shares of restricted common stock were issued to Global Debit Cash Card pursuant to the Territory Marketing Agreement, as amended, in exchange for the limited exclusive marketing rights to sell the debit cards in the states of Colorado and Utah for a period of ten (10) years. 170,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form

S-8 registration statement 200,000,000 shares of restricted common stock were issued to repurchase 200,000 shares of DCM. 54,000,000 shares of common stock were issued as payment to consultants in lieu of cash for services provided pursuant to consulting agreements. The fair value of the shares was recorded as prepaid professional services and amortized ratably over the term of the contract. These shares were issued pursuant to a Form S-8 registration statement F-14 80,000,000 shares of restricted common stock were issued as per agreement for the repurchase of 80,000 shares of DCM. The company complies with the provisions of Emerging Issues Task Force Issue No. 96-18, Accounting for Equity Instruments Issued to Other Than Employees for Acquiring, or in Conjunction with, Selling Goods or Services ("EITF 96-18"), with respect to stock issuances to such non-employees, whereby the value of the services was determined as a reliable measurement of fair value. Stock Issuance for Acquisitions Refer to Note 2-Business Combinations Preferred Stock In May 2004 Mercatus, with the consent of the Company, assigned 1,029,231, preferred shares to Windsor Professional Plaza, LLC. During June 2004 the Company cancelled 71,966 shares in order to reduce preferred stock outstanding because they would have converted into an amount of common shares in excess of those authorized. Note 8 Income Taxes No provision for income taxes has been recorded in the accompanying financial statements as a result of the Company's net operating losses. The Company has unused tax loss carry forwards of approximately $12,500,000 to offset future taxable income. Such carryforwards expire in the years beginning 2021. The deferred tax asset recorded by the Company as a result of these tax loss carryforwards is approximately $4,000,000 and $2,400,000 June 30, 2004 and 2003 respectively. The Company has reduced the deferred tax asset resulting from its tax loss carryforwards by a valuation allowance of an equal amount as the realization of the deferred tax asset is uncertain. The net change in the deferred tax asset and valuation allowance from July 1, 2003 to June 30, 2004 was an increase of approximately $1,600,000. Note 9 Commitments The Company, through its Alpha Tooling Inc. subsidiary has entered into lease agreements for office space that expire through June, 2007. The Company rents additional office space in Nevada, on a month to month basis. Remaining commitments under the operating leases are as follows: Fiscal Year Ending June 30 Amount ----------------------------- -------- 2005 $38,640 2006 40,572 2007 34,734 -------- $113,946 Note 10 Segment Information In accordance with SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," management has determined that there were three reportable segments based on the customers served by each segment: Full service internet service provider (ISP), mortgage banking business (which ceased operation in June 2002), and business-to-consumer ("B2C") provider (which ceased operations during fiscal year ended June 2003). Such determination was based on the level at which executive management reviews the results of operations in order to make decisions regarding performance assessment and resource allocation. Even though all operations ceased before the previous year end of June 30, 2003 there were ongoing expenses related to the closing of the respective operations. F-15 Full service Internet service provider serves customers requiring Internet access in the western United States through dial-up, and high-speed wireless; web hosting and web design (which ceased operations as of June 30, 2003). Mortgage banking business includes online mortgage loan origination, processing, servicing and re-sales, (which ceased operations in June 2002). Business-to-consumer provider primarily consists of cellular phone service origination fees and sales (which ceased operation as of June 30, 2003). Certain general expenses related to advertising and marketing, information systems, finance and administrative groups are not allocated to the operating segments and are included in "other" in the reconciliation of operating income reported below. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). Information on reportable segments is as follows: FISCAL YEAR ENDED ------------------------------ June 30, 2004 June 30, 2003 -------------- -------------- FULL-SERVICE ISP NET SALES $ 0 $ 657,096 OPERATING INCOME $ (786,753) $ (2,093,562) MARKETING (B-TO-B/C) NET SALES $ 0 $ 1,688 OPERATING INCOME $ 0 $ (71,355) OTHER NET INCOME $ 19,005 $ 120,000 OPERATING INCOME $ (4,388,727) $ (2,553,381) TOTAL NET SALES $ 0 $ 778,784 OPERATING INCOME $ (5,175,480) $ (4,718,298) During June 30, 2003 management decided to close down the Marketing segment of the Company. The debts of the subsidiary were incorporated into the parent Company and the debts owed to the parent Company of $1,259,236 were written off. Note 11 Other Events a. Company Acquisition In December 2003 the Company acquired the assets of Debit Card Marketing Company Enterprises, Inc for 60,000,000 shares of Global Debit Cash Card, Inc. (a subsidiary of the Company) which included reduction of the note owed by the Company to $515,000. That debit transferred as an asset to Global Debit Cash Card, Inc. In June 2002, DCM Enterprises, Inc. ("DCM") entered into an asset purchase agreement with the Company for the purchase of assets consisting of equipment, inventory, and proprietary information used in the sale of sunglasses (hereinafter referred to as "Ace Optics"). The purchase price consisted of 2,000,000 restricted shares of DCM's common stock valued at $1,000,000 or $0.50 per share. However, due to a disagreement with the Company's former officer and director, the Company was unable to take control of Ace Optics. Therefore, the transaction was rescinded. On August 22, 2003, DCM and the Company entered into an agreement to compensate DCM for the rescinded Ace Optics agreement. Pursuant to the Compensation Agreement, IBII has agreed to compensate the DCM approximately $768,000 in either cash, stock, or in other assets mutually agreed upon since the Company has received approximately $141,000 in equipment, $269,000 in cash, $150,000 in land and $65,060 in deposit related to real property purchase. The amount owed under this agreement carries a 5% annual interest rate. The entire amount is owed and due on February 22, 2005. Albert Reda, the Company's CEO, also serves as DCM's CEO. F-16 In September 2003 the Company through its wholly owned subsidiary Global Debit Cash Card, Inc, a Nevada Corporation (GLCD), agreed to purchase from DCM the Colorado and Utah territories for marketing the CARDS as per the USA Territory Marketing Representative Agreement. Pursuant to the terms of the agreement GLCD operates as the Territory Marketing Representative in Colorado and Utah and license resellers of the CARDS. The Licensed Activated Resellers (LAR) will be licensed through GLCD, the Territory Marketing Representative. In August 2003 the Company acquired Alpha Tooling, Inc. with 190,000 shares of DCM Enterprises, Inc stock. As per the agreement with DCM Enterprises, Inc the Company transferred Alpha Tooling, Inc to DCM Enterprises, Inc for credit towards the debit it has with DCM Enterprises, Inc. After October 1st 2003 the transaction was changed by agreement to an Asset assignment. b. Marketing Agreement The USA Territory Marketing Representative Agreement previously entered into between the Company and Global Debit Cash Card, Inc. was amended on March 15, 2004, to reflect the receipt of 156,390,807 shares of common stock as payment in full in exchange for the limited exclusive right to market and sell debit cards in the states of Colorado and Utah for a period of 10 years. c. Stock Repurchase In December 2003 the Company reacquired 200,000 shares of DCME for 200,000,000 restricted shares of the Company. The stock repurchase agreement was modified allowing an additional 200,000 shares of DCME to be repurchased by the Company. In September 2003 the Company agreed to reacquire the 149,283 shares previously sold to the investor. The agreement provides for the issuance of 560,000 shares of DCM Enterprises ("DCME") common stock in addition to 40,000,000 shares of restricted common stock of the Company. The agreement also allows the Company to purchase from the investor 200,000 shares of the 560,000 shares of DCME based upon the following terms per quarter. 40,000 shares of DCME for 40,000,000 shares of restricted common stock of the Company. This agreement to purchase the 200,000 shares of DCME is only in effect until such time that DCME begins trading. d. Agreement between the company and DCM Enterprise, March 18 2004 DCM filed the following information on form 8K as further agreement to the original agreement between the Company and DCM: In August 2003 the Company agreed to provide the Buyer of Ace Optics an alternative company or return the Buyer's stock since Ace Optics ceased operations immediately after the acquisition. In lieu of an alternative Company the Buyer and Seller agreed that the balance of the DCME stock received by the Seller will be returned to the Buyer. Subsequently the Company acquired and then sold Alpha Tooling to DCM. In August 2003 The Company acquired Alpha Tooling, Inc. with 190,000 shares of DCM Enterprises, Inc stock. As per an agreement with DCM Enterprises, Inc the Company initially transferred Alpha Tooling, Inc to DCM Enterprises, Inc, in exchange for a reduction of the debit it had with DCM Enterprises, Inc. During October 2003 the transaction was changed by agreement to an Asset assignment. The Company assigned certain assets of Alpha Tooling for credit of $311,639 which reduced the debt owed to DCM Enterprises, Inc. from $760,000 to $448,361. F-17 e. Dividend On June 17 2002, the Company announced the sale of Aces Optics to CRT Corp. for 2,000,000 shares of CRT restricted stock valued at $1.00 per share. The dividend was to be based on one share of CRT Corp. per 100 shares of post reverse shares of the Company. On July 8, 2002, the Company announced the dividend record date of July 17, 2002. On July 18, 2002 the Company announced the date of distributions to be August 30, 2002. By September 15, 2002 the Transfer agent, working with DTC, completed the issuance of the divided CRT Corp. restricted shares to its shareholders. f. PMCC On August 2, 2000, the Company announced that it had entered into an agreement whereby the Company would purchase 2,460,000 shares of PMCC Financial Corp. ("PMCC"), a full-service mortgage banking company, from PMCC's former chairman of the board, Ronald Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust, which represented 66.36% of the outstanding shares of PMCC. The aggregate purchase price of $3,198,000 is to be paid in cash to the seller by the Company as follows: $700,000 at date of closing; $306,857 for each of the seven installment payments to be paid on the 30th, 60th, 90th, 120th, 150th, 180th and 210th days following the close; $175,000 on each of the 240th and 270th day after the date of the closing. Shares of PMCC, a listed AMEX company, were not trading at the time of the agreement. In the event that three months after closing, PMCC's shares are not actively trading on the AMEX or NASDQ exchanges and the Company has not merged PMCC with the Company or any of the Company's subsidiaries, the purchase price shall be reduced by the amount of the final two $175,000 payments. On July 28, 2000, in a separate transaction, the Company entered into a stock purchase agreement with an unrelated individual whereby the Company would sell up to 370,000 shares of PMCC that the Company either owns or will eventually own, for total consideration of $1,387,500. Shares of PMCC stock sold by the Company will be released to the buyer in proportion to payments received. On March 2, 2001, the Company filed an action against Ronald Friedman and The Ronald Friedman 1997 Grantor Retained Annuity Trust in Federal Court, in Orange County, California for rescission of the purchase of the PMCC stock agreement and return of $1,006,857 paid by the Company. On August 16, 2001 Ronald Friedman, Robert Friedman, and The Ronald Friedman 1997 Grantor Retained Annuity Trust filed an action against the Company for the balance of the price under the contract in the amount of $2,191,143. This action was filed in the U.S. District Court for the Southern District of New York. In February 2002 the New York case was transferred to California and consolidated with the case filed by the Company in Orange County, CA. The Company feels that it will prevail in this action. As of December 31, 2000, the Company received payments of $559,812 and released 149,283 shares of PMCC stock that it owned. If PMCC is not actively trading within six months of the agreement, the Company will issue to the Buyer the equivalent number of shares of stock of the Company. PMCC has been actively trading as of January 19, 2001, and the $410,529 gain on the sale of the PMCC stock has been included in revenues for that period, ending December 31, 2000. In January 2001, PMCC was de-listed from the American Stock Exchange and began trading on the Pink Sheets under the symbol "PMCF". This met the trading requirement as per the stock sale agreement the Company had entered into with an unrelated individual. Note 12 - Legal Proceedings Globalist v. Internet Business's International, Inc. et al In this matter Globalist sued the Company and was awarded a judgment plus interest in the amount of approximately $301,000. The Company has appealed the court's decision and the award. Ronald Friedman, Robert Friedman, the Ronald Friedman 1997 Grantor Retained -- Annuity Trust v. Internet Business's International, Inc. et al and Internet -- Business's International. Inc. v Ronald Friedman 1997 Grantor Retained Annuity --- Trust ----- F-18 In April 2001 Ronald Friedman and the Ronald Friedman 1997 Grantor Retained Annuity Trust sued the Company for, among other things, breach of contract, in the United States District Court, Southern District of New York. The case was transferred to the United States District Court, Central District of California, Southern Division, to be consolidated with Internet Business's International. Inc. v Ronald Friedman 1997 Grantor Retained Annuity Trust. At that time the Company filed a cross-complaint against the Trust for rescission and the return of $1,006,857. This case has been dismissed by the judge. Community Bank of Nevada v InternetBusiness's International, Inc. et al --- On December 20, 2000, the Community Bank of Nevada filed a lawsuit in District Court, Clark County against Internet Business's International. Inc., seeking the return of equipment. The Company was not aware of the lawsuit and a default judgment was entered against the Company in the amount of $134,052. The Company's attorney is currently in negotiations to settle this matter. Louis Cherry v. InternetBusiness's International, Inc. -- On June 4, 2004 Mr. Cherry filed a lawsuit in California Superior Court, Orange County. Mr. Cherry alleges breach of an employment contract and is seeking an unspecified amount of money in damages. At the time of this filing the matter is still pending. Management of the Company believes that due to its current financial condition, any unfavorable outcome in the above matters will have a materially adverse effect on the financial condition, results of operations and cash flows of the Company. Note 13- Subsequent Events On September 30, 2004 the Company amended its Certificate of Incorporation and authorized 5,000,000 shares of Series C Preferred stock, $0.01 par value, convertible, with a stated value of $1.00 per share for conversion purposes. The C Preferred stock is convertible at the option of the holder into common shares of the Company at the end of 12 months from the date of its issuance based upon the ten day average trading price of the common stock just prior to the end of the 12 month holding period. The conversion ratio will be adjusted for any stock splits, dividends or distributions. During September 2004 the Company changed its name to Alpha Wireless Broadband, Inc. In September 2004 the Company entered into a binding Letter of Intent to acquire Seamless P2P LLC for preferred and common stock of the Company with a value of $1,000,000 subject to adjustments as defined in the agreement. During July 2004 the Company established a Creditor Trust to try to work out the Company's debts. Management intends to fund the Trust with 1,500,000.000 shares of the Company's common stock during November 2004. However, the Trust is authorized to accept assets of $1,500,000 or approximately 4,500,000,000 shares. The Trustee KFG LLC. is owned by a shareholder of the Company and is related to the long-term note holder and will receive a Trustee fee of the lesser of $10,000 or 10% of the amount paid out by the Trust each month. Additionally, during November 2004 Financial Services LLC. was appointed as the Trust Protector. Financial Services LLC. is owned by the Trustee. During August and September 2004, Windsor Professional Plaza LLC. (the Noteholder) converted 100,000 shares of convertible preferred stock for 1,026,390,000 shares of common stock which was then used to pay operating expenses of the company. F-19