

BALLANTYNE STRONG, INC.  
Form 10-Q  
August 09, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

\_\_\_\_\_  
Commission File Number: 1-13906

# BALLANTYNE STRONG, INC.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**47-0587703**  
(IRS Employer  
Identification Number)

**4350 McKinley Street, Omaha, Nebraska**  
(Address of Principal Executive Offices)

**68112**  
(Zip Code)

**(402) 453-4444**

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

**Class**  
Common Stock, \$.01, par value

**Outstanding as of July 29, 2011**  
14,453,823 shares



Table of Contents

TABLE OF CONTENTS

	Page No.
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<b><u>Condensed Consolidated Financial Statements</u></b>
	1
	<u>Consolidated Balance Sheets, June 30, 2011 and December 31, 2010</u>
	1
	<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2011 and 2010</u>
	2
	<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010</u>
	3
	<u>Notes to the Condensed Consolidated Financial Statements</u>
	4
<u>Item 2.</u>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>
	14
<u>Item 3.</u>	<b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>
	21
<u>Item 4.</u>	<b><u>Controls and Procedures</u></b>
	21
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<b><u>Legal Proceedings</u></b>
	22
<u>Item 1A.</u>	<b><u>Risk Factors</u></b>
	22
<u>Item 6.</u>	<b><u>Exhibits</u></b>
	22
	<b><u>Signatures</u></b>
	23

---

Table of Contents**PART I. Financial Information****Item 1. Condensed Consolidated Financial Statements****Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****June 30, 2011 and December 31, 2010****(In thousands)****(Unaudited)**

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,799	\$ 22,250
Restricted cash	209	209
Accounts receivable (net of allowance for doubtful accounts of \$169 and \$306, respectively)	22,290	16,380
Unbilled revenue	702	7,057
Inventories:		
Finished goods, net	15,238	21,857
Work in process	435	432
Raw materials and components, net	5,780	5,651
Total inventories, net	21,453	27,940
Recoverable income taxes	9	5
Other current assets	6,825	5,571
Total current assets	72,287	79,412
Investment in joint venture	1,724	2,070
Property, plant and equipment (net of accumulated depreciation of \$9,842 and \$9,426, respectively)	11,471	9,750
Other non-current assets	525	723
Deferred income taxes	601	76
Total assets	\$ 86,608	\$ 92,031
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 20,063	\$ 30,751
Other accrued expenses	3,935	3,890
Customer deposits	3,762	2,849
Income tax payable	685	1,521
Total current liabilities	28,445	39,011
Other non-current liabilities	690	643
Total liabilities	29,135	39,654
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value \$.01 per share; Authorized 1,000 shares, none outstanding		

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

Common stock, par value \$.01 per share; Authorized 25,000 shares; issued 16,609 shares in 2011 and 16,453 shares in 2010	166	165
Additional paid-in capital	37,026	36,241
Accumulated other comprehensive income:		
Foreign currency translation	677	260
Minimum pension liability	80	80
Retained earnings	35,007	31,014
	72,956	67,760
Less 2,155 and 2,140 of common shares in treasury, at cost, respectively	(15,483)	(15,383)
Total stockholders' equity	57,473	52,377
Total liabilities and stockholders' equity	\$ 86,608	\$ 92,031

See accompanying notes to consolidated financial statements.

Table of Contents**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****Three and Six Months Ended June 30, 2011 and 2010****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net revenues	\$ 37,595	\$ 32,748	\$ 69,469	\$ 58,086
Cost of revenues	30,811	26,778	56,632	47,820
Gross profit	6,784	5,970	12,837	10,266
Selling and administrative expenses:				
Selling	1,010	839	1,991	1,554
Administrative	2,096	2,137	4,930	4,138
Total selling and administrative expenses	3,106	2,976	6,921	5,692
Gain on the sale/disposal/transfer of assets	22	171	23	171
Income from operations	3,700	3,165	5,939	4,745
Net interest income (expense)	(15)	2	(26)	(2)
Equity in income (loss) of joint venture	(184)	985	(328)	826
Other income (expense), net	(79)	17	(79)	(27)
Income before income taxes	3,422	4,169	5,506	5,542
Income tax expense	(946)	(1,391)	(1,513)	(1,765)
Net earnings	\$ 2,476	\$ 2,778	\$ 3,993	\$ 3,777
Basic earnings per share	\$ 0.17	\$ 0.20	\$ 0.28	\$ 0.27
Diluted earnings per share	\$ 0.17	\$ 0.19	\$ 0.28	\$ 0.26
Weighted average shares outstanding:				
Basic	14,431	14,143	14,375	14,109
Diluted	14,493	14,380	14,470	14,334

See accompanying notes to consolidated financial statements.

Table of Contents**Ballantyne Strong, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****Six Months Ended June 30, 2011 and 2010****(In thousands)****(Unaudited)**

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net earnings	\$ 3,993	\$ 3,777
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(121)	41
Provision for obsolete inventory	(89)	216
Provision for warranty reserve	237	229
Depreciation of consignment inventory	140	287
Depreciation of property, plant and equipment	495	426
Amortization of intangibles	229	214
Equity in (gain) loss of joint venture	328	(826)
Loss (gain) on forward contracts	(108)	189
Gain on sale/disposal/transfer of assets	(23)	(171)
Deferred income taxes	(360)	256
Share-based compensation expense	95	159
Excess tax benefits from share-based arrangements	(293)	(92)
Changes in assets and liabilities:		
Accounts receivable	(5,777)	(8,803)
Unbilled revenue	6,355	1,136
Inventories	6,599	(3,874)
Other current assets	(1,506)	(2,219)
Accounts payable	(10,605)	11,911
Other accrued expenses	(127)	(785)
Customer deposits	909	1,512
Current income taxes	(554)	(309)
Net cash provided by (used in) operating activities	(183)	3,274
Cash flows from investing activities:		
Increase in restricted investments		(1)
Proceeds from sale of assets	74	19
Capital expenditures	(2,036)	(3,282)
Net cash used in investing activities	(1,962)	(3,264)
Cash flows from financing activities:		
Proceeds from exercise of stock options	146	337
Excess tax benefits from share-based compensation	293	92
Issuance of restricted stock	164	
Net cash provided by financing activities	603	429
Effect of exchange rate changes on cash and cash equivalents	91	35
Net increase (decrease) in cash and cash equivalents	(1,451)	474
Cash and cash equivalents at beginning of year	22,250	23,589
Cash and cash equivalents at end of year	20,799	24,063



See accompanying notes to consolidated financial statements

Table of Contents

**Ballantyne Strong, Inc. and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2011 and 2010**

**(Unaudited)**

**1. Nature of Operations**

Ballantyne Strong Inc. ( Ballantyne or the Company ), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong / MDI Screen Systems, Inc., and the American West Beijing Trading Company, Ltd., design, develop, manufacture, service and distribute theatre and lighting systems. The Company s products are distributed to movie exhibition companies, sports arenas, auditoriums, amusement parks and special venues.

**2. Summary of Significant Accounting Policies**

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

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

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company s Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year-ended December 31, 2010.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

***Use of Management Estimates***

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

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods. Certain 2010 amounts in the accompanying condensed consolidated financial statements and notes thereto have been reclassified to conform to the 2011 presentation.

No changes were made to the Company's significant accounting policies disclosed in Note 2 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2010.

### ***Recently Issued Accounting Pronouncements***

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance is effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of this standard to impact the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amends ASC 220, *Comprehensive Income*, by requiring all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2011. The Company is currently evaluating the impact of the adoption of the guidance on its consolidated financial statements.

Table of Contents**3. Earnings Per Common Share**

Basic earnings per share have been computed on the basis of the weighted average number of shares of common stock outstanding. Diluted 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. The following table provides the reconciliation between basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>(In thousands, except per share data)</b>				
Basic earnings per share:				
Earnings applicable to common stock	\$ 2,476	\$ 2,778	\$ 3,993	\$ 3,777
Basic weighted average common shares outstanding	14,431	14,143	14,375	14,109
Basic earnings per share	\$ 0.17	\$ 0.20	\$ 0.28	\$ 0.27
Diluted earnings per share:				
Earnings applicable to common stock	\$ 2,476	\$ 2,778	\$ 3,993	\$ 3,777
Basic weighted average common shares outstanding	14,431	14,143	14,375	14,109
Dilutive effect of stock options and restricted stock awards	62	237	95	225
Dilutive weighted average common shares outstanding	14,493	14,380	14,470	14,334
Diluted earnings per share	\$ 0.17	\$ 0.19	\$ 0.28	\$ 0.26

For the three and six months ended June 30, 2011, options to purchase 50,000 shares of common stock at a weighted average price of \$8.32, 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. These options expire in October 2020. In addition, 12,600 shares of restricted stock were excluded from the diluted EPS calculation as these shares were anti-dilutive as of June 30, 2011. As of June 30, 2010, the Company had 10,200 shares of restricted stock not included in the computation of diluted earnings per share.

**4. Comprehensive Income**

The accumulated other comprehensive income (loss), net, shown in the Company's condensed consolidated balance sheets includes the pension liability adjustments and the accumulated foreign currency translation adjustment. The following table shows the difference between the Company's reported net earnings and its comprehensive income (loss):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>(In thousands)</b>				
Comprehensive income:				
Net earnings	\$ 2,476	\$ 2,778	\$ 3,993	\$ 3,777
Other comprehensive income (loss):				
Foreign currency translation adjustment	87	(386)	417	(147)
Total comprehensive income	\$ 2,563	\$ 2,392	\$ 4,410	\$ 3,630



Table of Contents**5. Warranty Reserves**

The Company generally grants a warranty to its customers for a one-year period following the sale of all new equipment, and on selected repaired equipment for a one-year period following the repair. The warranty period is extended under certain circumstances and for certain products. In most instances the digital products are covered by the manufacturing firm's OEM warranty; however, there are certain customers where the Company may grant warranties in excess of the manufacturer's warranty. The Company accrues for these costs at the time of sale or repair, when events dictate that additional accruals are necessary.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>(In thousands)</b>				
Warranty accrual at beginning of period	\$ 956	\$ 354	\$ 848	\$ 378
Charged to expense	74	139	226	229
Amounts written off, net of recoveries	(77)	(73)	(126)	(191)
Foreign currency adjustment	8	(8)	13	(4)
Warranty accrual at end of period	\$ 961	\$ 412	\$ 961	\$ 412

**6. Digital Link II Joint Venture**

On March 6, 2007, the Company entered into an agreement with RealD to form an operating entity Digital Link II, LLC (the "LLC"). Under the agreement, the LLC was formed with the Company and RealD as the only two members with membership interests of 44.4% and 55.6%, respectively. The LLC was formed for purposes of commercializing certain 3D technology and to fund the deployment of digital projector systems and servers to exhibitors. Summarized financial data for the LLC is as follows (unaudited):

Balance Sheet	June 24,	December 24,
	2011	2010
(In thousands)		
Current assets	\$ 2,010	\$ 3,316
Non-current assets	7,705	9,419
Current liabilities	2,318	3,011
Non-current liabilities	3,850	5,361
Equity	\$ 3,547	\$ 4,363

Statement of Operations (In thousands)	Three Months Ended June 24,		Six Months Ended June 24,	
	2011	2010	2011	2010
Revenue	\$ 1	\$ 7,218	\$ 2	\$ 8,238
Cost of sales	(359)	(4,654)	(642)	(5,897)
Selling and administrative expenses	(42)	(67)	(79)	(147)
Operating income (loss)	(400)	2,497	(719)	2,194
Other expense	(34)	(115)	(77)	(197)
Net income (loss)	\$ (434)	\$ 2,382	\$ (796)	\$ 1,997



Table of Contents

The Company accounts for its investment by the equity method. Under this method, the Company recorded its proportionate share of LLC net loss based on the LLC's financial statements as of June 24, 2011. The LLC uses four 13-week periods for a total of 52 weeks to align its fiscal year-end with that of its majority interest holder, RealD. The Company's portion of losses of the LLC was approximately \$0.2 million and \$0.3 million for the three and six months ended June 30, 2011, respectively. The Company's portion of the gains of the LLC was approximately \$1.0 million and \$0.8 million for the three and six months ended June 30, 2010, respectively.

The Company did not make any sales of digital theatre projection equipment, in the normal course of business, to the LLC during the three and six months ended June 30, 2011 compared to sales of approximately \$0.4 million and \$4.7 million during the three and six months ended June 30, 2010, respectively. The LLC in turn provided the digital projection equipment to third party customers under system use agreements. No revenue was recognized by Ballantyne during the three and six months ended June 30, 2011. Revenue recognized by the Company was \$1.3 million and \$3.9 million in the three and six months ended June 30, 2010, respectively. Revenue recognized by the Company on any sale transaction to DL II is limited by its 44.4% ownership in the joint venture which will be recognized upon sale of the equipment to third parties.

Guarantees

The Company and RealD have provided guarantees to notes payable entered into by the LLC to finance digital projection equipment deployed in the normal course of business. No new notes payable were entered into by the LLC during the six months ended June 30, 2011. The notes bear interest at rates ranging from 7.0% to 7.46%. Under the terms of the guarantees, the Company and RealD would be required to pay the obligation should the LLC be in default of its loans or contract terms. The guarantees expire at the time each loan is paid off. The Company's total remaining guarantee was \$0.7 million at June 30, 2011 and \$1.2 million at December 31, 2010. The Company recorded an insignificant liability for the fair value of the obligations undertaken by issuing the guarantees at June 30, 2011 and December 31, 2010.

**7. Fair Value of Financial Instruments**

The fair value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses equal or approximate their fair values due to the short-term nature of these instruments. The estimated fair values and related assumptions used to estimate fair value of the Company's financial instruments are disclosed below.

ASC 820 establishes a hierarchy for fair value measurements based upon observable independent market inputs and unobservable market assumptions. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. The following represents the three categories of inputs used in determining the fair value of financial assets and liabilities:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are used in the measurement of assets and liabilities. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing the asset or liability.



**8. Income Taxes**

Income taxes are accounted for under the asset and liability method. The Company uses an estimate of its annual effective rate based on the facts and circumstances at the time to record interim income tax expense. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing whether the deferred tax assets will be realized, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and a related valuation allowance is deemed necessary. As of June 30, 2011, a valuation allowance has not been recorded. However, if the Company experiences difficulties in achieving its forecasts of taxable income, the Company may be required to record a valuation allowance against the deferred tax assets recorded which would impact the Company's results of operations.

Table of Contents

The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment losses) was approximately 27.6% and 27.5% for the three and six months ended June 30, 2011, respectively, as compared to 33.4% and 31.8% for the three and six months ended June 30, 2010 respectively. The effective tax rate differs from the statutory rates primarily as a result of differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction.

Federal and state income taxes have not been provided on accumulated but undistributed earnings of foreign subsidiaries aggregating approximately \$16.2 million at June 30, 2011 and as such, earnings have been permanently reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The Company has examinations not yet initiated for Federal purposes for fiscal years 2007 through 2010. In most cases, the Company has examinations open for State or local jurisdictions based on the particular jurisdiction's statute of limitations. The Company does not currently have any examinations in process. As of June 30, 2011, total unrecognized tax benefits amounted to approximately \$0.1 million.

Amounts related to estimated underpayment of income taxes, including interest and penalties, are classified as a component of tax expense in the consolidated statements of operations and were not material for the three and six months ended June 30, 2011. Amounts accrued for estimated underpayment of income taxes amounted to \$0.1 million as of June 30, 2011. The accruals largely related to state tax matters.

**9. Stock Compensation**

The Company accounts for awards of share-based compensation in accordance with ASC 718, *Stock Compensation - Overall*, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Share-based compensation expense recorded amounted to \$0.1 million for the three and six months ended June 30, 2011, respectively and \$0.1 and \$0.2 million for the three and six months ended June 30, 2010, respectively.

During 2010, the Company adopted and the stockholders approved the 2010 Long-Term Incentive Plan ( 2010 Plan ). No shares have been granted under the 2010 Plan as of June 30, 2011.

*Options*

The following table summarizes the Company's activities with respect to its stock options for the six months ended June 30, 2011 as follows:

Number of Options	Weighted Average Exercise Price	Weighted Average Remaining	Aggregate Intrinsic Value
----------------------	---------------------------------------	----------------------------------	---------------------------------

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

			Per Share		Contractual Term		
Outstanding at December 31, 2010	222,250	\$	3.12		3.05	\$	1,071,464
Granted							
Exercised	(122,250)		2.02				
Forfeited							
Outstanding at June 30, 2011	100,000	\$	4.47		5.08	\$	203,500
Exercisable at June 30, 2011	50,000	\$	0.62		0.83	\$	203,500

The aggregate intrinsic value in the table above represents the total that would have been received by the option holders if all in-the-money options had been exercised on June 30, 2011.

Table of Contents

The following table summarizes information about stock options outstanding and exercisable at June 30, 2011:

Range of option exercise price	Options Outstanding at			Options Exercisable at		
	Number of options	June 30, 2011 Weighted average remaining contractual life	Weighted average exercise price per option	Number of options	June 30, 2011 Weighted average remaining contractual life	Weighted average exercise price per option
\$0.62	50,000	0.83	\$ 0.62	50,000	0.83	\$ 0.62
\$8.32	50,000	9.33	8.32			
\$0.62 to 8.32	100,000	5.08	\$ 4.47	50,000	0.83	\$ 0.62

***Restricted Stock Plans***

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

As of June 30, 2011, less than \$0.1 million of unrecognized compensation cost related to non-vested restricted stock awards remained and is expected to be recognized over a weighted average period of 10.3 months.

The following table summarizes restricted stock activity for the six months ended June 30, 2011:

	Number of Restricted Stock Shares	Weighted Average Grant Price Fair Value
Nonvested at December 31, 2010	74,691	\$ 2.51
Granted	33,559	6.92
Shares vested	(95,650)	3.66
Shares forfeited		
Nonvested at June 30, 2011	12,600	\$ 5.50

***Employee Stock Purchase Plan***

The estimated grant date fair value of purchase rights outstanding under the Employee Stock Purchase Plan was \$3.25 per share using the Black-Scholes option-pricing model made with the following weighted average assumptions: risk-free interest rate of 0.17%, dividend yield of

0%, expected volatility of 46.4% and expected term of one year. The Company recorded insignificant share-based compensation expense pertaining to the stock purchase plan with insignificant associated tax benefits for each of the three and six months ended June 30, 2011 and 2010, respectively. At June 30, 2011, the total unrecognized estimated compensation cost was insignificant and is expected to be recognized over a period of four months.

#### **10. Related Party Transactions**

The Company did not make any sales of digital theatre projection equipment, in the normal course of business, to its 44.4%-owned LLC with Real D during the six months ended June 30, 2011 compared to sales of approximately \$0.4 and \$4.7 million during the three and six months ended June 30, 2010, respectively. The LLC in turn provides the digital projection equipment to third party customers under system use agreements. No revenue was recognized by the Company during the six months ended June 30, 2011 compared to \$1.3 and \$3.9 million in the three and six months ended June 30, 2010, respectively. Revenue recognized by the Company on the sale transaction to the LLC is limited by its 44.4% ownership and will be recognized upon sale of the equipment to the third parties.

Table of Contents

**11. Foreign Exchange Contracts**

The Company's primary exposure to foreign currency fluctuations pertains to its subsidiaries in Canada and China. In certain instances the Company may enter into foreign exchange forward contracts to manage a portion of this risk. At June 30, 2011, the Company had open forward exchange contracts to purchase Canadian dollars at a fixed rate of U.S. dollars with notional amounts totaling \$5.2 million. The Company has recorded insignificant unrealized losses associated with these open contracts in its consolidated statement of operations at June 30, 2011 and June 30, 2010, respectively.

**12. Commitments, Contingencies and Concentrations**

*Concentrations*

The Company's top ten customers accounted for approximately 49% of total 2011 consolidated net revenues. The top ten customers were from the theatre segment. Trade accounts receivable from these customers represented approximately 44% of net consolidated receivables at June 30, 2011. Sales to Regal Cinemas, Inc. and Kasima, LLC represented approximately 12% and 11% of consolidated sales, respectively. Additionally, receivables from these two customers represented approximately 7% and 9% of net consolidated receivables at June 30, 2011, respectively. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company's significant customers could have a material adverse effect on the Company's business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.

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

Through distribution agreements with NEC, the Company distributes Starus DLP Cinema projectors to North and South America, Hong Kong, China and certain other areas of Asia. These agreements are non-exclusive distributorship agreements, some of which can be terminated with 90 day advance notice. NEC is the primary supplier of the digital products the Company distributes to the Theatre Industry. If the Company is unable to maintain its relationship with NEC, the results would have a material adverse impact on its business, financial condition and operating results until the Company could find an alternative source of digital equipment to distribute. The principal raw materials and components used in the Company's manufacturing processes include aluminum, reflectors, electronic subassemblies and sheet metal. The Company uses a single manufacturer for each of its digital projectors, intermittent movement components, reflectors, aluminum castings, lenses and xenon lamps. Although the Company has not to-date experienced a significant difficulty in obtaining these components, no assurance can be given that shortages will not arise in the future. The loss of any one or more of such contract manufacturers could have a short-term adverse effect on the Company until alternative manufacturing arrangements are secured.

*Litigation*

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

As the Company reported in the Annual Report on Form 10-K, the plaintiffs in the asbestos case entitled *Manuel H. Chinea and Janet M. Chinea v. American Optical Company, Ballantyne Strong, Inc., a/k/a Ballantyne of Omaha, Inc., et al*, filed in the Superior Court of the State of New York, agreed to dismiss the Company from the lawsuit. The Company was formally dismissed from the case on April 8, 2011. In addition, from time to time the Company may be involved in various claims and legal actions which are routine litigation matters incidental to the business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Table of Contents

**13. Business Segment Information**

The presentation of segment information reflects the manner in which management organizes segments for making operating decisions and assessing performance.

As of June 30, 2011, the Company's operations were conducted principally through two business segments: Theatre and Lighting. Theatre operations include the design, manufacture, assembly, sale and service of motion picture projectors, xenon lamp houses and power supplies. Theatre operations also include the sale and service of digital projection equipment and accessories, sound systems, xenon lamps and lenses. The lighting segment operations include the design, manufacture, assembly and sale of follow spotlights, stationary searchlights and computer operated lighting systems for the motion picture production, television, live entertainment, theme parks and architectural industries. The Company allocates resources to business segments and evaluates the performance of these segments based upon reported segment operating profit. All intercompany sales are eliminated in consolidation.



Table of Contents**Ballantyne Strong, Inc. and Subsidiaries****Notes to the Condensed Consolidated Financial Statements****Three and Six Months Ended June 30, 2011 and 2010****(Unaudited)**

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Net revenue</b>				
<b>Theatre</b>				
Products	\$ 33,783	\$ 29,599	\$ 62,381	\$ 53,402
Services	2,923	2,144	5,392	3,036
Total theatre	36,706	31,743	67,773	56,438
Lighting	889	1,005	1,696	1,648
Total revenue	\$ 37,595	\$ 32,748	69,469	\$ 58,086
<b>Operating Income</b>				
<b>Theatre</b>				
Products	\$ 4,951	\$ 4,354	\$ 8,789	\$ 7,518
Services	161	125	407	(25)
Total theatre	5,112	4,479	9,196	7,493
Lighting	54	100	116	75
Total segment operating income	5,166	4,579	9,312	7,568
Unallocated general and administrative expenses	(1,488)	(1,414)	(3,396)	(2,823)
Interest, net	(15)	2	(26)	(2)
Gain on sale of assets	22		23	
Equity in income (loss) of joint venture	(184)	985	(328)	826
Other income (loss)	(79)	17	(79)	(27)
Income before income taxes	\$ 3,422	\$ 4,169	\$ 5,506	\$ 5,542
<b>Expenditures on capital equipment</b>				
<b>Theatre</b>				
Products	\$ 224	\$ 3,100	\$ 1,958	\$ 3,235
Services	20	28	72	39
Total theatre	244	3,128	2,030	3,274
Lighting	1	6	6	8
Total	\$ 245	\$ 3,134	2,036	\$ 3,282
<b>Depreciation and amortization</b>				
<b>Theatre</b>				
Products	\$ 349	\$ 472	\$ 744	\$ 808
Services	48	63	102	103
Total theatre	397	535	846	911
Lighting	6	(6)	18	16
Total	\$ 403	\$ 529	\$ 864	\$ 927

Table of Contents**Summary by Business Segments**

	June 30, 2011	December 31, 2010
	(in thousands)	
Identifiable assets		
Theatre		
Products	\$ 79,337	\$ 86,156
Services	4,533	3,358
Total theatre	83,870	89,514
Lighting	2,738	2,517
Total	\$ 86,608	\$ 92,031

**Summary by Geographical Area**

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net revenue				
United States	\$ 27,742	\$ 19,691	\$ 48,127	\$ 34,028
Canada	901	994	1,299	2,151
China	4,708	5,247	12,346	10,046
Asia (excluding China)	991	510	1,489	832
Mexico	573	911	1,453	3,028
South America	1,699	4,317	2,961	6,333
Europe	499	948	1,110	1,509
Other	482	130	684	159
Total	\$ 37,595	\$ 32,748	\$ 69,469	\$ 58,086

	June 30, 2011	December 31, 2010
	(In thousands)	
Identifiable assets		
United States	\$ 55,202	\$ 59,972
China	10,936	11,908
Asia (excluding China)	3,051	5,781
Canada	17,419	14,370
Total	\$ 86,608	\$ 92,031

Net revenues by business segment are to unaffiliated customers. Identifiable assets by geographical area are based on location of facilities. Net sales by geographical area are based on destination of sales. The decline in sales to South America for both three months and six months ending June 30, 2011 is due to a combination of significantly lower sales of analog equipment coupled with softer demand for digital equipment.

Table of Contents

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

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

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the Risk Factors section contained in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Given the risks and uncertainties, readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein, as well as others not now anticipated. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

**Overview**

We are a manufacturer, distributor and service provider for the theatre exhibition industry on a worldwide basis. We also design, develop, manufacture and distribute lighting systems to the worldwide entertainment lighting industry through our Strong Entertainment Lighting segment.

We have two primary reportable core operating segments: theatre and lighting. Approximately 98% of 2011 sales were from theatre products and approximately 2% were lighting products. Additional information related to our reporting segments can be found in the notes to the consolidated financial statements.

**Results of Operations:**

**Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010**

**Revenues**

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

Net revenues during the three months ended June 30, 2011 rose to \$37.6 million from \$32.7 million during the three months ended June 30, 2010.

	Three Months Ended June 30,	
	2011	2010
	(In thousands)	
Theatre		
Products	\$ 33,783	\$ 29,599
Services	2,923	2,144
Total theatre revenues	36,706	31,743
Lighting	889	1,005
Total net revenues	\$ 37,595	\$ 32,748

### *Theatre Segment*

Sales of theatre products and services increased to \$36.7 million in 2011 from \$31.7 million in 2010.

Table of Contents

Digital Product Sales

Sales of all digital products rose to \$26.4 million during the three months ended June 30, 2011 from \$19.7 million during the three months ended June 30, 2010 as theatre exhibition companies continue to replace their analog film projectors with digital equipment as the theatre exhibition industry's transition to digital continues. The majority of the increase in digital sales resulted from digital projection equipment; however, sales of digital lamps also rose to \$2.2 million in 2011 from \$1.8 million in 2010. We expect digital lamp sales to continue to grow as the need for replacement lamps grows as more digital projectors are placed in service by our customers.

Screen Product Sales

We generated screen sales of \$4.9 million in 2011 compared to \$4.5 million in the year-ago period as demand for the special silver screens needed for certain digital 3D applications continued. However, we did see a slowdown in the growth rate during the quarter, a result of items such as the slowing of 3-D screen orders as some exhibitors had accelerated their digital 3-D rollout in the past quarter to meet certain 3-D spring movie releases. We sell screens for both digital cinema and film applications. In some instances, a screen can be used interchangeably with either a digital projector or a film projector. However, there are certain digital 3D applications, such as Real D's technology, that require special silver screens that we manufacture.

Service Revenues

Service revenues increased to \$2.9 million in 2011 from \$2.1 million a year-ago as the motion picture industry's transition to digital cinema is resulting in more opportunities for our service team including installation and maintenance of digital projectors. Revenues from servicing digital products rose to \$2.7 million or 91% of all service revenues in 2011 from \$1.4 million or 67% in 2010. Revenues generated from servicing film equipment decreased to \$0.3 million in 2011 compared to \$0.7 million a year-ago. We expect film service revenues to continue to decline as the transition to digital continues.

Film Product Sales

Sales of analog film projection equipment declined to \$1.2 million in 2011 from \$3.1 million a year-ago principally due to the worldwide transition to digital products. Our primary market for film equipment was Latin and South America a year-ago, but demand from their region has dropped substantially this year, as the region begins to transition to digital cinema. Sales of film replacement parts declined to \$0.9 million during 2011 from \$1.3 million a year-ago while sales of xenon lamps amounted to \$0.5 million compared to \$1.1 million a year-ago. We expect sales of all film products to continue to decline as more analog film projectors are replaced during the digital transition.

Lighting Segment

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

Sales of lighting products declined to \$0.9 million from \$1.0 million a year-ago primarily due to lower follow spotlights sales which fell to \$0.4 million from \$0.7 million a year-ago. Sales of all other lighting products amounted to \$0.5 million in 2011 compared to \$0.2 million in 2010. Our lighting products are still being impacted by lower demand for the construction or improvements of stadiums and auditoriums around the world.

### **Export Revenues**

Sales outside the United States (mainly theatre sales) decreased to \$9.9 million in 2011 from \$13.1 million in 2010 resulting primarily from lower demand in South America where sales declined to \$1.7 million from \$4.3 million a year-ago resulting from a combination of significantly lower sales of analog equipment coupled with softer demand for digital equipment. Sales in China declined to \$4.7 million from \$5.2 million in 2010 as demand softened during the quarter. The remaining regions reflecting a decline in business were Mexico and Europe where sales declined in each region \$0.4 million primarily due to lower sales of analog equipment.

Table of Contents

**Gross Profit**

Consolidated gross profit increased to \$6.8 million in 2011 from \$6.0 million a year-ago but as a percent of total revenue decreased to 18.0% from 18.2% in 2010. Gross profit in the theatre segment increased to \$6.5 million in 2011 from \$5.7 million in 2010 but as a percentage of theatre sales fell slightly to 17.7% from 17.8% a year-ago. The decrease in gross margin resulted from increased sales of digital equipment which carry lower margins but substantially higher revenue price points than our other products. Gross margins are also expected to be impacted in the future by higher film manufacturing costs pertaining to lower demand for manufactured film products. We expect to purchase film inventory components in lower quantities resulting in some raw material price increases and to experience less manufacturing throughput in the Omaha plant to cover fixed overhead costs.

The gross profit in the lighting segment amounted to \$0.3 million or 33.7% as a percentage of revenues in 2011 compared to \$0.3 million or 31.1% as a percentage of revenues in 2010.

**Selling Expenses**

Selling expenses amounted to \$1.0 million during 2011 compared to \$0.8 million a year-ago and as a percentage of revenues increased slightly to 2.7% from 2.6% a year-ago. The increase from a year-ago is primarily the result of additional personnel to expand our international and service marketing efforts and to expand our sales offices in China.

**General and Administrative Expenses**

General and administrative expenses were essentially flat from period to period at \$2.1 million but fell as a percentage of revenues to 5.6% in 2011 from 6.5% in 2010. We did incur additional personnel costs of \$0.1 million, severance changes of \$0.1 million, and higher legal and professional fees of \$0.1 million during 2011, however, these costs were primarily offset by lower bad debt and bonus expenses of \$0.2 million of \$0.1 million, respectively.

**Other Financial Items**

Our results for 2011 reflect a loss of approximately \$0.2 million pertaining to our 44.4% share of equity in the loss from Digital Link II, LLC. This loss compares to a gain of approximately \$1.0 million a year-ago resulting from our share of a gain recorded during the year-ago quarter on the sale of equipment to a customer for projectors previously held in the LLC.

We recorded income tax expense of approximately \$0.9 million in 2011 compared to \$1.4 million in 2010. The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment earnings) was approximately 27.6% in 2011 compared to

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

33.4% in 2010. The effective tax rate differs from the statutory rates primarily as a result of differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The lower rate in 2011 resulted from more foreign-based taxable income which carry lower effective tax rates than the United States and certain tax credits pertaining to the expansion of our screen manufacturing facility in Canada.

For the reasons outlined herein, we generated net earnings of approximately \$2.5 million and basic and diluted earnings per share of \$0.17 in 2011 compared to earnings of \$2.8 million during 2010 and basic and diluted earnings per share of \$0.20 and \$0.19 per share, respectively.

### Six Months Ended June 30, 2011 Compared to the Six Months Ended June 30, 2010

#### Revenues

Net revenues during the six months ended June 30, 2011 rose to \$69.5 million from \$58.1 million during the six months ended June 30, 2010.

	Six Months Ended June 30,		
	2011		2010
	(In thousands)		
Theatre			
Products	\$	62,381	\$ 53,402
Services		5,392	3,036
Total theatre revenues		67,773	56,438
Lighting		1,696	1,648
Total net revenues	\$	69,469	\$ 58,086



Table of Contents

*Theatre Segment*

Sales of theatre products and services increased to \$67.8 million in 2011 from \$56.4 million in 2010.

Digital Product Sales

Sales of digital products rose to \$45.1 million from \$33.5 million in 2010 as theatre exhibition companies continue to purchase digital projection equipment to replace 35mm film projectors as the industry transition to digital continues. The majority of the increase resulted from sales of digital projection equipment; however, sales of digital lamps also rose to \$4.4 million in 2011 from \$3.1 million in 2010.

Screen Product Sales

We generated screen sales of \$11.7 million in 2011 compared to \$8.0 million a year-ago as demand for the special silver screens needed for certain digital 3D applications continued during 2011. However, during the three months ended June 30, 2011, we did see a slowdown in the growth rate, a result of items such as the slowing of 3-D screen orders as some exhibitors had accelerated their digital 3-D rollout in the past quarter to meet certain 3-D spring movie releases. We sell screens for both digital cinema and film applications. In some instances, a screen can be used interchangeably with either a digital projector or a film projector. However, there are certain digital 3D applications, such as Real D's technology, that require special silver screens that we manufacture. Sales of these screens are driving the growth of the product line.

Service Revenues

Service revenues increased to \$5.4 million in 2011 from \$3.0 million a year-ago as the motion picture industry's transition to digital cinema resulted in more opportunities for our service team including installation and maintenance of digital projectors. Revenues from servicing digital products rose to \$4.8 million or 88% of all service revenues in 2011 from \$1.7 million or 57% in 2010. Revenues generated from servicing film equipment decreased to \$0.6 million in 2011 compared to \$1.3 million a year-ago. We expect film service revenues to continue to decline as the transition to digital continues.

Film Product Sales

Sales of analog film projection equipment declined to \$3.1 million in 2011 from \$6.6 million a year-ago principally due to lower sales in the U.S. and Latin and South America as the industry continues its transition to digital. Sales of film replacement parts declined to \$1.7 million during 2011 from \$2.8 million a year-ago while sales of xenon lamps amounted to \$0.8 million compared to \$2.5 million a year-ago. We expect sales of all film products to continue to decline as more analog film projectors are replaced during the worldwide digital transition.

Lighting Segment

Sales of lighting products were essentially flat at \$1.7 million from period to period. Our lighting products are still being impacted by continued lower demand for the construction or improvements of stadiums and auditoriums around the world.

**Export Revenues**

Sales outside the United States (mainly theatre sales) decreased to \$21.3 million in 2011 from \$24.1 million in 2010 resulting primarily from lower demand in South America where sales declined to \$3.0 million from \$6.3 million a year-ago resulting from significantly lower demand for analog film equipment coupled with lower digital sales. In addition, sales in Mexico declined to \$1.5 million from \$3.0 million a year-ago due to a combination of lower analog and digital sales demand. Sales in China increased to \$12.4 million from \$10.1 million as the transition to digital from analog equipment continues in that region and theatre exhibition companies in China continue to build new theatre complexes.

Table of Contents

**Gross Profit**

Consolidated gross profit increased to \$12.8 million in 2011 from \$10.3 million a year-ago and as a percent of total revenue increased to 18.5% from 17.7% in 2010. Gross profit in the theatre segment increased to \$12.3 million in 2011 from \$9.8 million in 2010 and as a percentage of theatre sales improved to 18.2% from 17.3% a year-ago. Our gross margin increased from the prior year as our screen sales were very strong during the first six months and carry our largest margins. An increase in service revenues also impacted over gross margins. Our gross margin was negatively impacted by increased sales of digital equipment which carry lower gross margins, but substantially higher revenue price points than our other products. Gross margins are expected to be impacted in the future by higher film manufacturing costs pertaining to lower demand for manufactured film products. We expect to purchase film inventory components in lower quantities resulting in some raw material price increases and to experience less manufacturing throughput in the Omaha plant to cover fixed overhead costs.

The gross profit in the lighting segment amounted to \$0.5 million or 31.0% as a percentage of revenues in 2011 compared to \$0.5 million or 29.6% as a percentage of revenues in 2010.

**Selling Expenses**

Selling expenses amounted to \$2.0 million during 2011 compared to \$1.6 million a year-ago and as a percentage of revenues increased slightly to 2.9% from 2.7% a year-ago. The increase from a year-ago is primarily the result of additional personnel to expand our international and service marketing efforts and to expand our Chinese sales offices.

**General and Administrative Expenses**

General and administrative expenses rose to \$4.9 million in 2011 from \$4.1 million in 2010 and amounted to 7.1% of revenues in both periods. The results reflect increases in personnel costs, severance charges, and higher legal and professional fees. The personnel costs primarily pertain to the transition of having our retired CEO still employed during 2011. In addition, we incurred severance charges of \$0.3 million pertaining to the slowdown in production at our manufacturing facility in Omaha, Nebraska pertaining to less demand for analog film equipment. Finally, we incurred higher legal and professional fees pertaining to the general growth of our company. However, we did experience lower bad debt and bonus expenses of \$0.2 million and \$0.1 million, respectively in 2011 compared to the year-ago period, which helped to offset some of the increased costs.

**Other Financial Items**

Our results for 2011 reflect a loss of approximately \$0.3 million pertaining to our 44.4% share of equity in the loss from Digital Link II, LLC. This loss compares to a gain of approximately \$0.8 million a year-ago resulting from our share of income recorded a year-ago on the sale of equipment to a customer for projectors previously held in the LLC.

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

We recorded income tax expense of approximately \$1.5 million in 2011 compared to \$1.8 million in 2010. The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment earnings) was approximately 27.5% in 2011 compared to 31.8% in 2010. The effective tax rate differs from the statutory rates primarily as a result of differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The lower rate in 2011 resulted from more international taxable income which carry lower effective tax rates than the United States and certain tax credits pertaining to the expansion of our screen manufacturing facility in Canada.

For the reasons outlined herein, we generated net earnings of approximately \$4.0 million and basic and diluted earnings per share of \$0.28 in 2011 compared to earnings of \$3.8 million during 2010 and basic and diluted earnings per share of \$0.27 and \$0.26 per share a year-ago, respectively.

### **Liquidity and Capital Resources**

During the past several years, we have met our working capital and capital resource needs from either our operating or investing cash flows or a combination of both. We ended the second quarter with total cash and cash equivalents of \$20.8 million compared to \$22.3 million at December 31, 2010.

We are party to a \$20 million Revolving Credit Agreement and Note (the "Credit Agreement") with Wells Fargo Bank, N.A. ("Wells Fargo"). The borrowings from the Revolving Credit Agreement will primarily be used for working capital purposes and for other general corporate purposes. The Company's accounts receivable, general intangibles and inventory secure the Credit Agreement. Borrowings under the Credit Agreement bear interest at a rate equal to LIBOR plus 125 basis points and we pay a fee of 0.15% per annum on any unused portion. Since inception of the agreement no amounts have been borrowed on the Credit Agreement. During the second quarter the Credit Agreement was renewed until June 30, 2012.

Table of Contents

Net cash provided by operating activities has been breakeven in 2011 compared to \$3.3 million in 2010. The results primarily reflect a \$10.6 million decrease in accounts payable as we paid for the build-up of inventory at December 31, 2010, during 2011. This working capital decrease from accounts payable was offset by earnings of \$4.0 million and inventory reductions of \$6.6 million leading to the breakeven impact so for this year.

Net cash used in investing activities amounted to \$2.0 million in 2011 compared to \$3.3 million in 2010, primarily a result of capital expenditures in both periods to expand our screen manufacturing plant in Canada.

Net cash provided by financing activities amounted to \$0.6 million in 2011 compared to \$0.4 million a year ago and relates primarily to the issuance of restricted stock and also proceeds and tax benefits from share-based arrangements.

**Transactions with Related and Certain Other Parties**

We did not make any sales of digital theatre projection equipment, in the normal course of business, to our 44.4%-owned LLC with Real D during the three and six months ended June 30, 2011 compared to sales of approximately \$0.4 million and \$4.7 million during the three and six month periods ended June 30, 2010, respectively. The LLC in turn provides the digital projection equipment to third party customers under system use agreements. We did not recognize any revenue during the three and six months ended June 30, 2011 compared to \$1.3 million and \$3.9 million for the three and six month periods ended June 30, 2010, respectively. Revenue recognized by us on the sale transaction to the LLC is limited by our 44.4% ownership which will be recognized upon sale of the equipment to the third parties.

**Financial Instruments and Credit Risk Concentrations**

Our top ten customers accounted for approximately 49% of 2011 consolidated net revenues and were primarily from the theatre segment. Trade accounts receivable from these customers represented approximately 44% of net consolidated receivables at June 30, 2011. Sales to Regal Cinemas, Inc. and Kasima, LLC represented approximately 12% and 11% of consolidated sales, respectively. Additionally, receivables from these two customers represented approximately 7% and 9% of net consolidated receivables at June 30, 2011, respectively. While we believe our relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from our significant customers could have a material adverse effect on our Company's business, financial condition and results of operations. 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.

Financial instruments that potentially expose us to a concentration of credit risk principally consist of accounts receivable. We sell product to a large number of customers in many different geographic regions. To minimize credit concentration risk, we perform ongoing credit evaluations of our customers' financial condition or use letters of credit.

Through distribution agreements with NEC, we distribute Starus DLP Cinema projectors to North and South America, Hong Kong, China and certain other areas of Asia. These agreements are non-exclusive distributorship agreements, some of which can be terminated with 90 day

advance notice. NEC is the primary supplier of the digital products the Company distributes to the Theatre Industry. If we are unable to maintain our relationship with NEC, the results would have a material adverse impact on our business, financial condition and operating results until the Company could find an alternative source of digital equipment to distribute. The principal raw materials and components used in our manufacturing processes include aluminum, reflectors, electronic subassemblies and sheet metal. We use a single manufacturer for each of our digital projectors, intermittent movement components, reflectors, aluminum castings, lenses and xenon lamps. Although we have not to-date experienced a significant difficulty in obtaining these components, no assurance can be given that shortages will not arise in the future. The loss of any one or more of such contract manufacturers could have a short-term adverse effect on our Company until alternative manufacturing arrangements are secured.

#### **Hedging and Trading Activities**

Our primary exposure to foreign currency fluctuations pertains to our subsidiaries in Canada and China. In certain instances, we may enter into a foreign exchange contract to manage a portion of this risk. For the periods ended June 30, 2011 and June 30, 2010, we had recorded insignificant unrealized losses associated with these open contracts in our consolidated statement of operations.

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

Table of Contents**Off Balance Sheet Arrangements and Contractual Obligations**

Our off balance sheet arrangements consist principally of our postretirement benefit obligations and leasing various assets under operating leases. The future estimated payments under these arrangements are summarized below along with our other contractual obligations:

Contractual Obligations	Payments Due by Period							Thereafter
	Total	Remaining in 2011	2012	2013	2014	2015		
Non-competition agreement	\$ 50	\$ 50	\$	\$	\$	\$	\$	\$
Postretirement benefits	179	11	18	19	20	20		91
Operating leases	122	33	44	37	8			
Contractual cash obligations	\$ 351	\$ 94	\$ 62	\$ 56	\$ 28	\$ 20	\$	\$ 91

We have a contractual obligation to pay up to \$50,000 to High End Systems, Inc. Payment is contingent on satisfaction of certain future sales of the product line purchased as part of the business. In addition, we have accrued approximately \$0.1 million for the estimated underpayment of income taxes we are obligated to pay. The accrual is primarily related to state tax matters. There were no other contractual obligations other than inventory and property, plant and equipment purchases in the ordinary course of business.

Guarantees

The Company and RealD have guarantees recorded for notes payable entered into by the LLC to finance digital projection equipment deployed in the normal course of business. No new notes payable were entered into by the LLC during the first quarter ended 2011. The notes bear interest at rates ranging from 7.0% to 7.46%. Under terms of the guarantees, the Company and RealD would be required to pay the obligation should the LLC be in default of its loans or contract terms. The guarantees expire at the time each loan is paid off. Our total remaining guarantees were \$0.7 million at June 30, 2011 and \$1.2 million at December 31, 2010. We recorded an insignificant liability for the fair value of the obligations undertaken by issuing the guarantees at June 30, 2011 and December 31, 2010.

**Seasonality**

Generally, our business exhibits a moderate level of seasonality.

**Litigation**

As we reported in our Annual Report on Form 10-K, the plaintiffs in the asbestos case entitled *Manuel H. Chinae and Janet M. Chinae v. American Optical Company, Ballantyne Strong, Inc., a/k/a Ballantyne of Omaha, Inc., et al.*, filed in the Superior Court of the State of New

*York*, agreed to dismiss the Company from the lawsuit. We were formally dismissed from the case on April 8, 2011. In addition, from time to time we may be involved in various claims and legal actions which are routine litigation matters incidental to the business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on our financial condition, results of operations or liquidity.

### **Inflation**

We believe that the relatively moderate rates of inflation in recent years have not had a significant impact on our net revenues or profitability. Historically, we have been able to offset any inflationary effects by either increasing prices or improving cost efficiencies.

### **Critical Accounting Policies and Estimates**

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

Our accounting policies and estimates that are most critical to the presentation of our results of operations and financial condition, and which require the greatest use of judgments and estimates by management, are designated as our critical accounting policies. See further discussion of our critical accounting policies under Item 7, Management's Discussion and Analysis of Financial Condition



Table of Contents

and Results of Operations in our Annual Report on Form 10-K for our year ended December 31, 2010. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. There were no significant changes in our critical accounting policies during the three months ended June 30, 2011.

**Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which requires the categorization by level for items that are only required to be disclosed at fair value and information about transfers between Level 1 and Level 2. In addition, the ASU provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance is effective for fiscal years beginning after December 15, 2011. We do not expect the adoption of this standard to impact the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amends ASC 220, *Comprehensive Income*, by requiring all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2011. We are currently evaluating the impact of the adoption of the guidance on our consolidated financial statements.

***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

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

**Interest Rates** We have a variable interest rate credit facility, however, we have no outstanding balances as of June 30, 2011. If we would borrow up to the maximum amount available under these facilities, a one percent increase in the interest rate would increase interest expense by \$0.2 million per annum. Interest rate risks from our other interest-related accounts such as our postretirement obligations are not deemed significant.

**Foreign Exchange** Exposure to transactions denominated in a currency other than the entity's functional currency is primarily related to our China and Canadian subsidiaries. From time to time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with forecasted transactions. A portion of our cash in the China and Canadian subsidiaries is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately \$0.2 million.

*Item 4. Controls and Procedures*

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective at ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (as amended) is (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in the Company's internal control over financial reporting during the fiscal quarter for the period covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

Table of Contents

**PART II. Other Information**

***Item 1. Legal Proceedings***

As the Company reported in the Annual Report on Form 10-K, the plaintiffs in the asbestos case entitled *Manuel H. Chinae and Janet M. Chinae v. American Optical Company, Ballantyne Strong, Inc., aka Ballantyne of Omaha, Inc., et al.*, filed in the Superior Court of the State of New York, agreed to dismiss the Company from the lawsuit. The Company was formally dismissed from the case on April 8, 2011. In addition, from time to time the Company may be involved in various claims and legal actions which are routine litigation matters incidental to the business. In the opinion of management, the ultimate disposition of these other matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

***Item 1A. Risk Factors***

Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 includes a detailed discussion of the Company's risk factors. There have been no material changes to the risk factors as previously disclosed.

***Item 6. Exhibits***

See the Exhibit Index.

Table of Contents

**SIGNATURES**

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

BALLANTYNE STRONG, INC.

By: /s/ GARY L. CAVEY  
Gary L. Cavey, President,  
Chief Executive Officer and Director

By: /s/ MARY A. CARSTENS  
Mary A. Carstens, Chief Financial Officer

Date: August 9, 2011

Date: August 9, 2011

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Document Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
4.1	Credit Agreement, dated June 30, 2010, by and between the Company and Wells Fargo Bank, N.A.	8K	4.1	July 7, 2010	
4.2	First Amendment to Credit Agreement, dated June 28, 2011, by and between the Company and Wells Fargo Bank, N.A.	8K	4.2	June 30, 2011	
4.3	Revolving Line of Credit Note, dated June 28, 2011, by and between the Company and Wells Fargo Bank, N.A.	8K	4.3	June 30, 2011	
31.1	Rule 13a-14(a) Certification of Chief Executive Officer				X
31.2	Rule 13a-14(a) Certification of Chief Financial Officer				X
32.1	18 U.S.C. Section 1350 Certification of Chief Executive Officer				X
32.2	18 U.S.C. Section 1350 Certification of Chief Financial Officer				X
101	The following materials from Ballantyne Strong s, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.				X