BALLANTYNE STRONG, INC.
Form 10-Q
August 09, 2013

**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, 2013**

**OR**

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

**For the transition period from to**

**Commission File Number: 1-13906**

**BALLANTYNE STRONG, INC.**

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware** | **47-0587703** |
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification Number) |
| **13710 FNB Parkway, Suite 400, Omaha, Nebraska** | **68154** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(402) 453-4444**

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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** | **Outstanding as of August 1, 2013** |
|---|---|
| Common Stock, $.01, par value | 14,138,297 shares |

1

**TABLE OF CONTENTS**

**PART I. Financial Information**

***Item 1. Condensed Consolidated Financial Statements***

**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

**(In thousands)**

| | **June 30, 2013 (Unaudited)** | **December 31, 2012** |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 45,121 | $ 40,168 |
| Accounts receivable (net of allowance for doubtful accounts of $592 and $487, respectively) | 13,379 | 26,227 |
| Inventories: | | |
| Finished goods, net | 8,565 | 6,706 |
| Work in process | 1,053 | 1,018 |
| Raw materials and components, net | 3,640 | 3,247 |
| Total inventories, net | 13,258 | 10,971 |
| Other current assets | 4,595 | 6,741 |
| Total current assets | 76,353 | 84,107 |
| Property, plant and equipment (net of accumulated depreciation of $4,235 and $3,750, respectively) | 10,264 | 11,105 |
| Note receivable | 2,232 | 2,232 |
| Other assets | 2,277 | 2,102 |
| Total assets | $ 91,126 | $ 99,546 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 8,882 | $ 16,646 |
| Accrued expenses | 4,558 | 5,313 |
| Customer deposits/deferred revenue | 4,348 | 5,251 |
| Total current liabilities | 17,788 | 27,210 |
| Deferred revenue | 2,936 | 3,302 |
| Deferred income taxes | 646 | 580 |
| Other accrued expenses, net of current portion | 1,830 | 1,538 |
| Total liabilities | 23,200 | 32,630 |
| Stockholders' equity: | | |

| | | |
|---|---|---|
| Preferred stock, par value $.01 per share; Authorized 1,000 shares, none outstanding | — | — |
| Common stock, par value $.01 per share; Authorized 25,000 shares; issued 16,869 and 16,782 shares at June 30, 2013 and December 31, 2012, respectively; 14,138 and 14,051 shares outstanding at June 30, 2013 and December 31, 2012, respectively | 167 | 167 |
| Additional paid-in capital | 37,988 | 37,770 |
| Accumulated other comprehensive income: | | |
| Foreign currency translation | (822) | 269 |
| Postretirement benefit obligations | 46 | 46 |
| Retained earnings | 48,786 | 46,903 |
| | 86,165 | 85,155 |
| Less 2,731 of common shares in treasury, at cost at June 30, 2013 and December 31, 2012 | (18,239) | (18,239) |
| Total stockholders' equity | 67,926 | 66,916 |
| Total liabilities and stockholders' equity | $ 91,126 | $ 99,546 |

See accompanying notes to condensed consolidated financial statements.

3

**Ballantyne Strong, Inc. and Subsidiaries Condensed Consolidated Statements of Operations**

**Three and Six Months Ended June 30, 2013 and 2012**

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

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenues | $24,395 | $46,708 | $52,016 | $90,727 |
| Cost of revenues | 19,715 | 40,350 | 43,423 | 78,030 |
| Gross profit | 4,680 | 6,358 | 8,593 | 12,697 |
| Selling and administrative expenses: | | | | |
| Selling | 870 | 1,229 | 1,736 | 2,056 |
| Administrative | 2,453 | 3,135 | 4,954 | 6,202 |
| Total selling and administrative expenses | 3,323 | 4,364 | 6,690 | 8,258 |
| Gain (loss) on the sale/disposal/transfer of assets | 3 | 460 | 4 | 1,378 |
| Income from operations | 1,360 | 2,454 | 1,907 | 5,817 |
| Net interest income (expense) | 1 | (11) | 16 | (22) |
| Equity income of joint venture | (12) | (25) | (118) | 66 |
| Other income, net | 247 | 253 | 496 | 413 |
| Income before income taxes | 1,596 | 2,671 | 2,301 | 6,274 |
| Income tax expense | (319) | (868) | (460) | (2,024) |
| Net earnings | $1,277 | $1,803 | $1,841 | $4,250 |
| Basic earnings per share | $0.09 | $0.13 | $0.13 | $0.30 |
| Diluted earnings per share | $0.09 | $0.13 | $0.13 | $0.30 |
| | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 13,997 | 13,969 | 13,988 | 14,103 |
| Diluted | 14,045 | 14,046 | 14,035 | 14,171 |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income**

**Three and Six Months Ended June 30, 2013 and 2012**

**(In thousands)**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings | $1,277 | $1,803 | $1,841 | $4,250 |
| Currency translation adjustment: | | | | |
| Unrealized net change arising during period | (690) | (359) | (1,091) | (40) |
| Other Comprehensive Loss | (690) | (359) | (1,091) | (40) |
| Comprehensive Income | $587 | $1,444 | $750 | $4,210 |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

**Six Months Ended June 30, 2013 and 2012**

**(In thousands)**

**(Unaudited)**

| | Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| Net cash provided by (used in) operating activities | $5,671 | $(5,724) |
| Cash flows from investing activities: | | |
| Distribution from Joint Venture | — | 1,509 |
| Capital expenditures | (197) | (172) |
| Proceeds from sale of assets | 2 | 3,043 |
| Net cash (used in) provided by investing activities | (195) | 4,380 |
| Cash flows from financing activities: | | |
| Excess tax benefits from share-based arrangements | (11) | — |
| Purchase of treasury stock | — | (2,667) |
| Proceeds from employee stock purchase plan | 3 | — |
| Net cash used in financing activities | (8) | (2,667) |
| Effect of exchange rate changes on cash and cash equivalents | (515) | (24) |
| Net increase (decrease) in cash and cash equivalents | 4,953 | (4,035) |
| Cash and cash equivalents at beginning of period | 40,168 | 39,889 |
| Cash and cash equivalents at end of period | $45,121 | $35,854 |

See accompanying notes to condensed consolidated financial statements.

**Ballantyne Strong, Inc. and Subsidiaries**

**Notes to the Condensed Consolidated Financial Statements**

**(Unaudited)**

## 1. Nature of Operations

Ballantyne Strong, Inc. ("Ballantyne" or the "Company"), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., and Strong Westrex (Beijing) Trading Inc., manufacture, distribute, integrate and service theatre and lighting systems on a worldwide basis.

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 and controlled domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company's Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year-ended December 31, 2012.

The condensed consolidated balance sheet as of December 31, 2012 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods.  The results for interim periods are not necessarily indicative of trends or results expected for a full year.

***Use of Management Estimates***

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

***Fair Value of Financial and Derivative Instruments***

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - inputs to the valuation techniques are quoted prices in active markets for identical assets or liabilities
Level 2 - inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
Level 3 - inputs to the valuation techniques are unobservable for the assets or liabilities

The following table presents the Company's financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of June 30, 2013:

Fair Values Measured on a Recurring Basis:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **$ in thousands** | | | |
| Cash and cash equivalents | $45,121 | $— | $— | $45,121 |
| Foreign currency forward contracts | $— | $8,021 | $— | $8,021 |
| Notes Receivable | $— | $— | $2,232 | $2,232 |

The notes receivable accrue interest at a rate of 15% per annum which is paid in accordance with an agreed-upon cash flow schedule.

Quantitative information about the Company's level 3 fair value measurements at June 30, 2013 is set forth below:

| **$ in thousands** | **Fair Value at 6/30/2013** | **Valuation Technique** | **Unobservable input** | **Range** |
|---|---|---|---|---|
| Notes Receivable | $ 2,232 | Discounted cash flow | Probability of default | 0 % |
| | | | Prepayment rates | 0 % |
| | | | Loss severity | 0 % |

The significant unobservable inputs used in the fair value measurement of the Company's notes receivable are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and directionally opposite change in the assumption used for prepayment rates.

The following table reconciles the beginning and ending balance of the Company's Notes Receivable fair value:

| | **Six months ended June 30,** | |
|---|---|---|
| | **2013** | **2012** |

| | $ in thousands | |
|---|---|---|
| Notes Receivable balance, beginning of period | $2,232 | $2,062 |
| Issuances of new notes | — | 150 |
| Notes Receivable balance, end of period | $2,232 | $2,212 |

The following table presents the Company’s financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall, as of December 31, 2012:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **$ in thousands** | | | |
| Cash and cash equivalents | $40,168 | $ — | $— | $40,168 |
| Notes Receivable | $— | $ — | $2,232 | $2,232 |

The carrying values of all other financial assets and liabilities including accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the six months ended June 30, 2013 we did not have any significant non-recurring measurements of non-financial assets or liabilities.

***Recently Issued Accounting Pronouncements***

There are no recently issued accounting pronouncements which the Company believes will materially impact its consolidated financial statements.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **(In thousands, except per share data)** | | | | |
| Basic earnings per share: | | | | |
| Earnings (loss) applicable to common stock | $1,277 | $1,803 | $1,841 | $4,250 |
| Basic weighted average common shares outstanding | 13,997 | 13,969 | 13,988 | 14,103 |
| Basic earnings (loss) per share | $0.09 | $0.13 | $0.13 | $0.30 |
| Diluted earnings per share: | | | | |
| Earnings (loss) applicable to common stock | $1,277 | $1,803 | $1,841 | $4,250 |
| Basic weighted average common shares outstanding | 13,997 | 13,969 | 13,988 | 14,103 |
| Dilutive effect of stock options and restricted stock awards | 48 | 77 | 47 | 68 |
| Dilutive weighted average common shares outstanding | 14,045 | 14,046 | 14,035 | 14,171 |
| Diluted earnings (loss) per share | $0.09 | $0.13 | $0.13 | $0.30 |

For the three and six month periods ended June 30, 2013, grants and options to purchase 253,500 and 255,700 shares of common stock 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. For the three and six month periods ended June 30, 2012, options to purchase 50,000 shares of common stock 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.

**4. Warranty Reserves**

The Company has generally granted a warranty to its customers for a one-year period following the sale of manufactured and distributed products. In most instances, the distributed products are covered by the manufacturing firm's OEM warranty on parts and we cover warranty labor cost when required. However, there are certain customers where the Company may grant warranties in excess of the manufacturer's warranty for distributed products. The Company accrues for these costs at the time of sale or repair. The following table summarizes warranty activity for the three and six months ended June 30, 2013 and 2012:

| (In thousands) | Three Months Ended June 30, 2013 | 2012 | Six Months Ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| Warranty accrual at beginning of period | $760 | $1,051 | $770 | $1,028 |
| Charged to expense | 133 | 98 | 189 | 223 |
| Amounts written off, net of recoveries | (48 ) | (297 ) | (116) | (406 ) |
| Foreign currency adjustment | 6 | (6 ) | 8 | 1 |
| Warranty accrual at end of period | $851 | $846 | $851 | $846 |

**5. 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.

The Company accounts for its investment by the equity method. Under this method, the Company recorded its proportionate share of LLC net income or loss based on the LLC's financial statements as of June 21, 2013 and June 22, 2012, respectively. 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 loss of the LLC was $0.01 million and $0.1 million for the three and six months ended June 30, 2013. The Company's portion of income (loss) of the LLC was ($0.02) million and $0.1 million for the three and six months ended June 30, 2012, respectively.

In the past, the Company sold digital theatre projection equipment, in the normal course of business, to the LLC. The LLC in turn provides and sells the digital projection equipment to third party customers under system use agreements or through sales agreements. Revenue recognized by the Company on the sale transaction to the LLC is limited by its 44.4% ownership in the joint venture which will be recognized upon sale of the equipment to the third parties. There were no sales to the LLC during the three and six months ended June 30, 2013 and 2012. However, the Company recognized $0 and $0.2 million of gross margin during the three and six months ended June 30, 2012, respectively, related to the LLC's sale of equipment to third parties. The total receivable balance due from the LLC was insignificant at June 30, 2013 and December 31, 2012.

During the first quarter of 2012 the Company received a $1.5 million return of investment in the LLC. The Company received no distributions from the LLC in the six months ended June 30, 2013.

9

**6. Corporate-wide strategic initiative**

In the fourth quarter of 2011, the Board of Directors and management of the Company approved a corporate-wide strategic initiative to refocus its worldwide digital equipment distribution business, services platform and cinema screen manufacturing business and exit the analog projector manufacturing business. The strategic initiative consisted of selling the Company's Omaha, Nebraska-based analog projector facility and manufacturing equipment and relocating its corporate headquarters to a new, smaller location in Omaha, which also houses its Network Operations Center. Total life to date severance charges for the strategic initiative begun in 2011 are approximately $1.4 million. The strategic initiative is expected to be completed by the end of 2013.

The following table reconciles the beginning and ending restructuring balance for the six months ended June 30, 2013, which are included in accrued expenses:

| | (in thousands) |
|---|---|
| Accrued severance at beginning of period | $ 88 |
| Severance paid | (27) |
| Accrued severance at end of period | $ 61 |

**7. Income Taxes**

The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment losses) was approximately 20.0% for the three and six months ended June 30, 2013, respectively as compared to 32.5% and 32.3% for the three and six months ended June 30, 2012, 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. The Company's estimated annual effective rate was lower in the three and six months ended June 30, 2013 compared to the comparable periods of 2012 due to higher earnings before tax within our Canadian operations, Strong/MDI Screen Systems, Inc., which has a lower tax rate.

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 2005 through 2012. 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, 2013, total unrecognized tax benefits amounted to approximately $0.2 million.

**8. Stock Compensation**

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values. Share-based compensation expense approximated the following for the three and six months ended June 30, 2013 and 2012 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Share based compensation expense | $120 | $118) | $220 | $279 |

***Long-Term Incentive Plan***

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, or performance units. Vesting terms vary with each grant and may be subject to vesting upon a "change in control" of the Company. The total number of shares reserved for issuance under the 2010 Plan was 600,000 shares. During the six months ended June 30, 2013, the Company awarded 22,500 options and 9,000 restricted stock shares under the 2010 Plan.

***Options***

As noted above, under the 2010 Plan, the Company granted options to purchase 22,500 shares of the Company's common stock during the six months ended June 30, 2013. Options to purchase shares of common stock were granted with exercise prices equal to the fair value of the common stock on the date of grant and vest over a four-year period. The fair value of stock options granted was estimated using a Black-Scholes valuation model with the following assumptions:

| | |
|---|---|
| Expected dividend yield at date of grant | 0 % |
| Expected stock price volatility | 58.5% |
| Risk-free interest rate | 0.9 % |
| Expected life of options (in years) | 5.5 |

The risk-free interest rate assumptions were based on the U.S. Treasury yield curve in effect at the time of the grant. The expected volatility was based on historical monthly price changes of the Company's stock based on the expected life of the options at the date of grant. The expected life of options is the average number of years the Company estimates that options will be outstanding. The Company considers groups of associates that have similar historical exercise behavior separately for valuation purposes.

The following table summarizes the Company's activities with respect to its stock options for the six months ended June 30, 2013 as follows:

| | Number of Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2012 | 191,200 | $ 5.64 | 8.69 | $ — |
| Granted | 22,500 | 3.55 | | |
| Exercised | — | — | | |
| Forfeited | — | — | | |
| Outstanding at June 30, 2013 | 213,700 | $ 5.42 | 8.34 | $ 15,405 |
| Exercisable at June 30, 2013 | 70,283 | $ 6.40 | 7.93 | $ 330 |

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, 2013.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2013:

| | Options Outstanding at June 30, 2013 | | | Options Exercisable at June 30, 2013 | | |
|---|---|---|---|---|---|---|
| Range of option exercise price | Number of options | Weighted average remaining contractual life | Weighted average exercise price per option | Number of options | Weighted average remaining contractual life | Weighted average exercise price per option |
| $3.55 to 8.32 | 213,700 | 8.34 | $ 5.42 | 70,283 | 7.93 | $ 6.40 |

***Restricted Stock Plans***

The Company's 2005 Restricted Stock Plan (the "2005 Plan") provides for the grant of restricted stock awards. A total of 250,000 shares were reserved for issuance under the 2005 Plan. These shares are subject to such restrictions on transferability and other restrictions, if any, as the Compensation Committee may impose. During the six months ended June 30, 2013, the Company awarded 41,000 restricted shares under the 2005 Plan, which vest annually over a three year period.

The Ballantyne Strong, Inc. Non-Employee Directors' Restricted Stock Plan (the "Non-Employee Plan") provides for the award of restricted shares to outside directors. A total of 250,000 shares are reserved for issuance under the Non-Employee Plan. During the six months ended June 30, 2013, the Company granted 37,500 restricted shares under the Non-Employee Plan to the Board of Directors. These shares will vest the day preceding the Company's 2014 Annual Meeting of Stockholders.

In connection with the restricted stock granted to certain employees and non-employee directors, the Company accrues 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, 2013, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately $0.8 million which is expected to be recognized over a weighted average period of 2.2 years.

The following table summarizes restricted stock activity for the six months ended June 30, 2013:

| | **Number of Restricted Stock Shares** | **Weighted Average Grant Price Fair Value** |
|---|---|---|
| Non-vested at December 31, 2012 | 84,200 | $ 5.24 |
| Granted | 87,500 | 4.28 |
| Shares vested | (42,200 ) | 5.78 |
| Shares forfeited | — | — |
| Non-vested at June 30, 2013 | 129,500 | $ 4.42 |

11

***Employee Stock Purchase Plan***

The estimated grant date fair value of purchase rights outstanding under the Employee Stock Purchase Plan at June 30, 2013 was $1.51 per share using the Black-Scholes option-pricing model made with the following weighted average assumptions:

| | | |
|---|---|---|
| Expected dividend yield at date of grant | 0 | % |
| Expected stock price volatility | 27.00 | % |
| Risk-free interest rate | 0.14 | % |
| Expected term (in years) | 1 | |

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, 2013 and 2012. At June 30, 2013, the total unrecognized estimated compensation cost was insignificant.

**9. 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. The Company has not designated its foreign exchange forward contracts as hedges.

The following table presents the gross fair value of derivative instruments, all of which are not designated as hedging instruments:

| | | **Asset Derivatives** | |
|---|---|---|---|
| **(in thousands)** | **Classification** | **June 30, 2013** | **December 31, 2012** |
| Foreign exchange forward contracts | Other current liabilities | $ 8,021 | $ — |

The above fair value at June 30, 2013 is offset against $8.0 million in other current liabilities, resulting in a net amount of $0.02 million of net asset. All cash flows related to our foreign currency exchange contracts are classified as operating cash flows. We recognized in other income, the following realized and unrealized gains from foreign currency forward exchange contracts:

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| **(in thousands)** | **Classification** | **2013** | **2012** | **2013** | **2012** |
| Foreign exchange forward contracts | Other Income (Loss) | $(188) | $ 6 | $(188) | $162 |

See Note 1 for further information related to the Company's foreign exchange forward contracts.

**10. Commitments, Contingencies and Concentrations**

***Concentrations***

The Company's top ten customers accounted for approximately 44.3% and 45.7% of total consolidated net revenues for the three and six months ended June 30, 2013, respectively, and were from the theatre segment. Trade accounts receivable from these customers represented approximately 39.6% of net consolidated receivables at June 30, 2013. 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.

***Leases***

The Company and its subsidiaries lease plant and office facilities, furniture, autos and equipment under operating leases expiring through 2023. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business.

The Company's future minimum lease payments for operating leases are as follows:

| | Payments due by period ($ in thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Remainder 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
| Operating leases | $3,849 | $292 | $527 | $345 | $355 | $359 | $ 1,971 |

12

**11. Business Segment Information**

As of June 30, 2013, the Company's operations were conducted principally through two business segments: Theatre and Lighting. Theatre operations include the sale and service of digital projection equipment, sound systems, xenon lamps, lenses and other accessories. The lighting segment operations include the design, 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 significant intercompany sales are eliminated in consolidation.

**Summary by Business Segments**

| (In thousands) | Three Months Ended June 30, 2013 | 2012 | Six Months Ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| Net revenue | | | | |
| Theatre | | | | |
| Products | $18,382 | $42,749 | $42,517 | $82,401 |
| Services | 3,101 | 3,299 | 5,645 | 6,964 |
| Total theatre | 21,483 | 46,048 | 48,162 | 89,365 |
| Lighting | 2,912 | 660 | 3,854 | 1,362 |
| Total revenue | $24,395 | $46,708 | $52,016 | $90,727 |
| | | | | |
| Operating Income (Loss) | | | | |
| Theatre | | | | |
| Products | $1,945 | $3,655 | $4,169 | $7,479 |
| Services | 566 | 497 | 727 | 1,088 |
| Total theatre | 2,511 | 4,152 | 4,895 | 8,567 |
| Lighting | 475 | (196) | 426 | (213) |
| Total segment operating income | 2,986 | 3,956 | 5,322 | 8,354 |
| Unallocated general and administrative expenses | (1,629) | (1,962) | (3,419) | (3,915) |
| Interest, net | 1 | (11) | 16 | (22) |
| Gain on sale of assets | 3 | 460 | 4 | 1,378 |
| Equity income (loss) of joint venture | (12) | (25) | (118) | 66 |
| Other income | 247 | 253 | 496 | 413 |
| Income before income taxes | $1,596 | $2,671 | $2,301 | $6,274 |

| (In thousands) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Identifiable assets | | |