

BALLANTYNE STRONG, INC.
Form 10-K
March 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

**(Mark
One)**

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from

to

Commission File No. 1-13906

Ballantyne Strong, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0587703

(I.R.S. Employer Identification No.)

13710 FNB Parkway, Suite 400

Omaha, Nebraska

68154

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: **(402) 453-4444**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
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Common Stock, \$0.01 par value	NYSE MKT
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Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports filed pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Non-accelerated filer

Large accelerated filer 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

The aggregate market value of the Company's voting common stock held by non-affiliates, based upon the closing price of the stock on the NYSE MKT on June 30, 2014 was \$58,846,579. The Company does not have any non-voting common equity. As of March 3, 2015, 14,092,129 shares of common stock of Ballantyne Strong, Inc., were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 13, 2015 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 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. In addition, forward-looking statements may be made in press releases, orally, at conferences, on the Company's worldwide web site, or otherwise, by or on behalf of the Company. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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

PART I

Item 1. Business

General Description of Business

General

Ballantyne Strong Inc. ("BTN", "Ballantyne", "the Company", "we", "our", and "us") designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens and lighting products; and provides managed services including monitoring of networked equipment to our customers. We add value through our design, engineering, manufacturing excellence and customer service. We focus on the retail, financial, government and cinema markets.

Ballantyne is a Delaware corporation founded in 1932 and became a designer and manufacturer of film projectors. Over the past 80 years, we have expanded our product lines and services to meet the needs of the ever-changing and technologically-advancing theatre exhibition industry. We broadened our offerings through acquisitions in the lighting sector to serve the needs of architectural, entertainment and commercial customers. Most recently, we entered the digital media distribution sector through an acquisition which enables us to serve the advertising, education and communication needs of retail, corporate, and government sectors. Ballantyne went public in 1995; our shares are traded on the NYSE MKT under the symbol BTN.

On October 1, 2013, we acquired Convergent Corporation (formerly a subsidiary of Sony Electronics Inc.) and its wholly owned subsidiary Convergent Media Systems (“Convergent”, “CMS”), a managed solutions provider to blue chip organizations that require design, installation, operation and maintenance of enterprise media networks. Convergent allows the Company to leverage its core assets and strengthen its platform for our strategic business focus of providing technology solutions to customers in support of their business, marketing and branding needs.

We conduct our operations through two primary business segments: Managed Services and Systems Integration. Approximately 67%, 82%, and 91% of our sales were from the Systems Integration segment for the years ended 2014, 2013, and 2012 respectively.

Strategy

Our strategy combines the following key elements:

Build Upon Digital Media Capabilities Added in the Convergent Acquisition to Generate a Growing Stream of Recurring Revenue. With the acquisition of Convergent, Ballantyne has established a strong foundation as a leading provider of digital media solutions. Through the Convergent subsidiary, the Company can offer end-to-end digital solutions that help our clients communicate more effectively with their customers. Our comprehensive service offerings span the entire lifecycle of a digital media campaign, from strategy and content development to systems installation and support. The back-end maintenance, monitoring and support functions in our digital media programs will provide a recurring source of revenue that is expected to reduce volatility in the Company's earnings.

Expand Managed Services and Network Operations Center Within the Cinema Market and Penetrate Other Strategic Growth Markets. We have made significant investments in capital and technical resources over the past several years in strengthening our core service capabilities which include systems and network monitoring, installation and repair of equipment, cabling, and wiring. These strengths along with our strong customer relationships, will allow us to expand our core service offerings in a variety of vertical markets including the theater industry, retail, banking, and government installations through the utilization of the latest technologies. In addition, the technical capabilities within our Network Operations Center ("NOC") allow us to meet industry demands for remote systems monitoring for digital equipment and back room operations into other adjacent markets.

Expand Product Sales Opportunities Through Multi-Pronged Approach. We offer cloud based video security solutions to enterprise customers in North America as a valued added reseller ("VAR") for multiple manufacturers. We will capitalize on our strong customer relationships within the cinema market to sell digital solutions obtained through the acquisition of Convergent. We will bundle and aggressively cross sell all product and service offerings to existing market channels tapping into our solid customer relationships. We continue to look for new product offerings either through distribution channels or via in-house development that fit with our current product portfolio and markets.

Leverage Engineering and Project Management Expertise. We will leverage our engineering capabilities across all businesses to deliver user-friendly solutions to complex projects and products within the cinema and digital media markets. This strategy utilizes the growing strength of our technical expertise as a solution provider to our customers. As firmware and software increase in complexity, we see opportunity to simplify the existing and emerging technologies for our customers from deployment through daily operational management and servicing.

Pursue Strategic Acquisitions. We are focused on identifying and completing acquisitions within areas where we can effectively leverage our strong competencies as an organization, including operations management, distribution and

channel management, as well as our skillsets in integrating, installing and supporting advanced electronic components and software applications.

Operating Segments

Systems Integration

Overview

We provide a full range of product solutions primarily for the theatre exhibition industry including a wide spectrum of premier audio-visual products and accessories such as digital projectors, state of the art projection screens, servers, library management systems, and audio systems. We also sell lighting solutions for the architectural and entertainment lighting industry.

Theatre Exhibition — We provide a full range of products and services to the theatre exhibition industry from the design and installation of new theatre exhibition systems and related equipment to complete film-to-digital theatre conversion services. The systems include a wide spectrum of premier audio-visual products and accessories such as: digital projectors, state of the art projection screens, servers and library management systems, menu boards, flat panel displays, and sound systems.

We market and sell directly to theatre exhibitors, as well as through certain domestic and international VAR's. Over the course of our 80-year history, we have developed ongoing customer relationships with a large portion of the theatre owners in the United States and a number of the major theatre owners internationally. Our sales and marketing staff principally develop business by maintaining regular personal contact with our established customer relationships including conducting site visits. In our sales and marketing efforts, we emphasize our value proposition of providing the broadest range of products and services delivered by one of the industry's largest technical service teams, which provides a significant resource to our clients in managing the complexities of digital technology in the cinema exhibition industry. Our sales and marketing professionals have extensive experience with the Company's product lines and have long-term relationships throughout the industry.

Lighting — Under the trademark Strong® we design, engineer, manufacture, and supply long-range followspots, as well as other lighting products for architectural, theatrical, promotional, stage and studio purposes. Our products include a line of LED lighting, which are more effective and efficient than traditional lighting products. We provide installation and maintenance services for our lighting product lines for both permanent and touring applications. While the majority of our lighting products are manufactured to stock, many lighting works are fitted to our clients' projects and property needs, such as commissioned work for one-of-a-kind lighting needs. For these projects, we can provide project management services, including design, engineering, manufacture, installation, and continued service.

Products

Screens — We manufacture multiple standard and large format 2D and 3D screens for cinema and special venue applications through our ISO-certified manufacturing facility in Canada. There are certain digital 3D applications, such as the technology by RealD, that require unique "silver" screens that we manufacture. In addition, we purchased Peintures Elite, Inc. in 2013, the manufacturer of coatings that have been exclusive to our Company in the manufacture of our screens. This relatively small acquisition positioned us to retain the exclusive rights to this coating and continue producing our unique screens. We are constantly innovating to set new standards within the screen industry, and in 2013 we developed the new Premium HGA screen that diffuses light evenly over its entire surface, thereby reducing the formation of so-called "hot spots."

Projectors — Through distribution agreements with NEC and BARCO, we distribute DLP Cinema projectors in the Americas and Asia. Both manufacturers of the projectors use the DLP cinema technology from Texas Instruments. NEC offers DLP Cinema projectors ranging from their NC900 projector for screens up to 31 feet wide to the NC3240S which is a 4K projector designed for screens up to 105 feet wide. BARCO offers DLP Cinema projectors ranging from their DP2K-10SX projector for screens up to 33 feet to the DP4K-32B cinema projector which is an ultra-bright enhanced 4K cinema projector for screens up to 105 feet.

Servers — Through a formal distribution agreement with GDC Technology (USA), LLC, we distribute GDC's line of digital cinema servers in North and South America. We also distribute their servers in certain other areas of the world under less formal arrangements. In addition, we distribute servers for other server manufacturers including those manufactured by Doremi and Dolby. Digital servers and the related integrated media block are used by our customers for the storage and delivery of digital content.

Audio Systems — We distribute a range of state of the art digital audio systems, including surround and 3D sound technologies from the following manufacturers: Dolby, Barco USL, JBL and QSC. Our technicians are certified by each manufacturer to install, service and maintain these and other audio systems.

Additional Projection Products — We also manufacture or distribute certain third-party accessories, which coupled with the cinema projector, server and integrated media block, can fully outfit and automate a projection booth. The significant accessories include, but are not limited to library management systems, automation products, pedestals, 3D accessories, lenses and lamps.

Followspots — We have designed, engineered, manufactured and distributed long-range followspots since 1950. Our followspots are primarily marketed under the Strong® trademark and include recognized trademarked models such as Super Trouper® and Gladiator®. Our long-range followspots are high-intensity general-use illumination products designed for both permanent and touring installations. Lower wattage models are appropriate for small venues and truss mounting; high-intensity xenon models are appropriate for large theatres, arenas and stadiums.

Signature Commissioned Lighting — Our Company designs and engineers signature, one-of-a-kind lighting solutions on commissioned, case-by-case basis for architectural sites, entertainment, and various other purposes. Our most recent signature piece is the beacon light atop the new One World Trade Center. We've also produced unique lighting solutions for the NASA Space Shuttle lighting, as well as the beacon light atop the iconic pyramid-shaped Luxor Hotel and Casino in Las Vegas, Nevada.

LED Specification Grade Accent Lighting — We design and manufacture a controlled beam LED floodlight with highly refined optics for illuminating extremely distant targets, and Strong distributes specialty lighting products from an Italian manufacturing company, DTS (D.T.S. illuminazione srl). This specialty line utilizes the latest in lighting and LED technology to serve specialty markets including houses of worship, decorative façade and accent lighting.

Moving Head and Specialty Lighting — The Company also distributes specialty lighting products from an Italian manufacturing company, DTS. This specialty line utilizes the latest in lighting and LED technology to serve specialty markets including houses of worship, arenas, nightclubs, TV production sets, casinos and touring concert applications.

Markets

Cinema — Our non-exclusive distribution agreements with NEC and BARCO allow us to market digital projectors in North and South America, including the Caribbean. In China we have distribution rights to sell NEC and BARCO and can distribute NEC products in Hong Kong and certain other areas of Asia. We do not have any territorial restrictions for any of our other products and services.

Lighting — We sell our lighting products through a combination of a small direct sales force, dealer network and commissioned sales representatives to arenas, stadiums, theme parks, theatres, auditoriums, houses of worship, equipment rental companies, entertainers, and managers and owners of premier architectural sites worldwide. Our followspot products are marketed using the Strong® trademark and are used in over 100 major arenas throughout the world.

Competition

Digital Projection Equipment — The markets for our products in the theatre segment have been highly competitive during the analog-to-digital cinema conversion. The primary competitive factors are price, product quality, features and customer support. Competition in the digital cinema equipment market includes one other licensed OEM of the Texas Instruments' DLP cinema technology besides our partners NEC and BARCO: Christie Digital Systems. We also compete with SONY, which uses its own 4K digital cinema technology.

Screens — While there are numerous screen manufacturing companies in the world, the primary competitor in the worldwide cinema screen market is Harkness Screens. Competitive factors include product performance characteristics, quality, availability and price.

Lighting — The markets for our lighting products are highly competitive and highly fragmented with no dominant players. We compete in the lighting industry primarily on the basis of quality, price, branding, and product line variety, as well as through engineering solutions for specialty and signature applications.

Managed Services

Overview

The Company delivers solutions and services across two primary markets: digital out-of-home and cinema. These markets are served through the capabilities it has gained from the acquisition of Convergent in 2013 and from Strong Technical Services (“STS”) respectively. While there is digital signage equipment sold within this segment, the primary focus of this organization is providing solutions and services to our customers.

Solutions

Digital Signage — End-to-end digital signage solutions are at the core of our managed services offering, which include media strategy, application development, content creation, system integration, hardware, software, content distribution, management, network monitoring and field services. We primarily market our solutions to large businesses in North America and Latin America that do not have the resources or expertise to create, manage and maintain their digital signage system internally. These customers typically have complex solution requirements or require deployment across many locations. Customers utilize digital signage to increase product sales, improve the consumer experience, enhance their brand or inform their audience.

Enterprise Video — We provide video communication services and solutions including design, integration, monitoring, maintenance and installation for the government and corporate markets. These solutions provide enterprises with the infrastructure necessary to communicate, collaborate, train and educate employees. We also provide monitoring and technical services that support free-to-guest solutions (such as in-room television) for customers in the hospitality, healthcare, and other industries involving multi-dwelling units and communication solutions.

Products and Services

System Design and Integration within Digital Signage — We design and integrate systems to meet technical framework and requirements for our clients. We are technology agnostic, integrating a number of third-party systems and devices such as media players, servers, networking equipment and displays into our delivery platform. The design and integration services include sourcing hardware, developing integration points, set-up, configuration and quality assurance testing.

Content Creation — We provide creative services to digital signage clients that include media strategy, content design and production. Our creative services team develops custom content to support the branding and marketing initiatives of each client.

Content Management and Distribution — Content management is required to ensure accurate playback at the right place and at the right time based on a number of factors such as geography, site characteristics, location within a site or consumer demographics. We utilize both third-party and proprietary software platforms for the management and distribution of content. Content is prepared, scheduled and centrally distributed from our facility. We utilize secure virtual private network (“VPN”) connections across the Internet or the client network in accordance to specifications set by the client’s IT department.

Network Operations Centers — Our NOCs, staffed by software engineers and systems techs, operate 24/7/365 and provide IT solutions to our customers to meet Service Level Agreements (“SLA”). We are able to monitor our customers’ networked equipment remotely through a VPN, often providing proactive solutions to systems issues before they cause system failures. Our remote services include systems monitoring and maintenance, software upgrades, and system repairs. By utilizing NOC personnel to solve customer issues whenever possible, we eliminate travel time and expenses normally incurred by sending a technician onsite for repairs. Many issues that don’t involve parts replacements or physical contact with the hardware can be handled remotely using our remote assistance technologies.

Service & Maintenance — We supply digital installations and after-sale maintenance services. Our onsite technicians work closely with our NOC staff to resolve systems issues that cannot be fixed remotely; they are certified to install and service digital and audio equipment for all manufacturers including the equipment of our competitors. We offer cabling, wiring, installation and maintenance services for digital menu boards and other digital equipment on ad hoc, as-needed basis. We also offer long-term contractual service packages for maintenance and repairs to a wide range of installed digital equipment for customers including equipment originally installed by our competitors. These long-term service packages provide our Company with recurring revenue.

Markets

Digital Out-of-Home – The Digital Out-of-Home (“DOOH”) advertising market is a subset of the overall OOH advertising market that includes in-store digital displays and interactive promotion kiosks. DOOH marketing campaigns consist of a network of digital displays that are centrally managed and target both mobile and captive customers outside the home. We are primarily focused on pursuing DOOH communication opportunities within the retail, banking, entertainment, healthcare and corporate markets.

Enterprise Video Solutions – The Enterprise Video Solutions (“EVS”) market consists of customers seeking corporate video communications, employee training and system monitoring solutions. We are primarily focused on pursuing EVS opportunities within the hospitality, government, banking, healthcare and corporate markets.

Cinema – The cinema market consists of theatre exhibitors both domestically and internationally. Ballantyne’s foundation was built in the cinema exhibition industry and this market remains a key focus of our Company. We market and sell our services directly to theatre owners and through dealers or Value Added Resellers networks. Our sales and marketing staff principally develop business by maintaining regular personal customer contact including conducting site visits, while customer service and technical support functions are dispatched when needed. We believe the expanded product and service offerings obtained through the acquisition of Convergent will provide significant value to the service we provide to our customer base in the cinema industry.

Competition

There are many players in the Digital Out-of-Home market who have expertise in integration. Some of the key players include Diversified Media Group and Christie Digital.

The competition in the cinema service industry for installation, after-sale maintenance, and NOC services is primarily driven by the two largest cinema service companies, Ballantyne and Christie Digital Cinema, although there are several other smaller scale providers in the cinema market.

Subsidiaries

As of December 31, 2014 we have six wholly-owned operational subsidiaries: Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Strong Westrex, Inc., Strong Westrex (Beijing) Trading Inc., Convergent Corporation and Convergent Media Systems Corporation

Strong Technical Services, Inc. performs service work for all of our products.

Strong/MDI Screen Systems, Inc. manufactures cinema screens and related accessories.

Strong Westrex, Inc. is the holding company for our sales and service office in Hong Kong.

Strong Westrex (Beijing) Trading Inc. a/k/a American West Beijing Trading Company, Ltd. is located in Beijing, China and is our sales and service business for China.

Convergent Corporation is a holding company of Convergent Media Systems Corporation.

Convergent Media Systems Corporation performs all digital signage solutions and services.

Manufacturing

We manufacture cinema screens through Strong/MDI, our screen subsidiary in Joliette, Quebec, Canada. These manufacturing operations consist of a 75,000 square-foot facility for the manufacture of cinema screen systems. These facilities include expanded PVC welding operations with programmable automations, as well as two 90-foot high screen coating towers with state of the art precision coating application software and painting systems. This world class ISO certified operation has the capability of manufacturing multiple standard screens simultaneously to large format 2D and 3D screens for cinema and special venue applications. We are one of the only screen manufacturers in the world with Silver Screen technologies capable of supporting RealD projections.

We manufacture the following lighting products at our facility in Lawrenceville, Georgia: Strong[®], Sky-Tracker[®], Super Trouper[®], Gladiator[®] and Solutions[™].

Quality Control

We believe that our quality control procedures and the quality standards for the products we manufacture, distribute or service have contributed significantly to our reputation for high performance and reliability. The inspection of incoming materials and components as well as the testing of all of our products during various stages of the sales and service cycle are key elements of this program.

Trademarks

We own or otherwise have rights to various trademarks and trade names used in conjunction with the sale of our products. We believe our success will not be dependent upon trademark protection, but rather upon our scientific and engineering capabilities and research and production techniques. We consider the following trademarks to be of value to our business: Strong[®], Sky-Tracker[®], Super Trouper[®], Gladiator[®], Solutions[™], Convergent[™] and PRODOKOL[™].

Employees

We employed 325 persons on a full-time basis at December 31, 2014. Of these employees, 93 were considered manufacturing, 128 were service related and 104 were considered sales and administrative. We are not a party to any collective bargaining agreement.

Executive Officers of the Company

Gary L. Cavey, age 65, has been our President, CEO and a member of the Board of Directors since November of 2010.

Christopher D. Stark, age 54, assumed the responsibilities of VP-Operations in May of 2007 and is currently Senior Vice President and Chief Operating Officer.

Ray F. Boegner, age 65, has been Senior Vice President since 1997. Mr. Boegner joined us in 1985 and has acted in various sales roles for our Company.

Nathan D. Legband, age 35, has been Vice President, Chief Financial Officer and Treasurer since September of 2014. Mr. Legband joined us in 2012 as the Corporate Controller.

David G. Anderson, age 60, serves as Senior Vice President, General Counsel and Secretary. Mr. Anderson assumed the roles in November of 2012.

Information available on Ballantyne Website

We make available free of charge on our website (www.strong-world.com) through a link to the Securities and Exchange Commission ("SEC") website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. However, information posted on our website is not part of the Form 10-K. The

Board of Directors has adopted the following governance documents which are also posted on our website:

• Code of Ethics

• Corporate Governance Principles, including procedures for bringing concerns or complaints to the attention of the Board, any Committee or any individual Director.

• Audit Committee Charter

• Nominating and Corporate Governance Committee Charter

• Compensation Committee Charter

These corporate governance documents are also available in print to any stockholder upon request by writing to:

Corporate Secretary
Ballantyne Strong, Inc.
13710 FNB Parkway, Suite 400
Omaha, NE 68154

Financial Information About Geographic Areas

The information called for by this item is included in Note 22 of our consolidated financial statements in this report.

Item 1A. Risk Factors

You should carefully consider the following risk factors and other information contained in this Annual Report on Form 10-K before investing in shares of our common stock. Investing in our common stock involves a high degree of risk. If any of the following risk factors actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline and you may lose part or all of your investment. We undertake no obligation to revise or update any forward-looking statements contained herein to reflect subsequent events or circumstances or the occurrence of unanticipated events. Also refer to the note regarding Forward-Looking Statements in Item 7 of Part II of this Form 10-K.

New and expanded lines of business are a part of our strategy to compensate for the lower demand for our digital cinema products and installation services.

A significant portion of our revenue in recent years has been generated from the theatre exhibition industry's need for digital cinema equipment and service to support the industries transformation from film to digital equipment. This required the Company to commit substantial resources to the process of retrofitting existing theatre complexes by removing the film equipment and replacing it with digital equipment, and experienced significant financial gains from this work. With the completion of this digital conversion by North America theatre exhibitors, we will no longer be able to rely on that income as a major source of our earnings. If we are unable to expand our revenue streams with other products and services, our future growth would be significantly curtailed.

Growth through acquisition is part of our business plan and can inherently involve significant risks and uncertainties.

We continually review acquisition opportunities that will enhance our market position, expand our product lines and provide sufficient synergies. Any of the following risks associated with our past acquisitions or future acquisitions, individually or in aggregate, may have a material adverse effect on our business, financial condition, operating results or stock price:

difficulties in realizing anticipated financial or strategic benefits of such acquisitions,
diversion of capital from other uses and potential dilution of stockholder ownership,
risks of increased indebtedness,
significant capital expenditures may be required to integrate the acquisition into our operations,
disruption of our ongoing business or the ongoing acquired business, including impairment of relationships with our employees, distributors, suppliers or customers or those of the acquired companies,

diversion of management's attention and other resources from current operations, including potential strain on financial and managerial controls and reporting systems and procedures, difficulty in integrating acquired operations, including restructuring and realigning activities, personnel, technologies and products, including loss of key employees, distributors, suppliers or customers of acquired businesses, inability to realize cost savings, sales increases or other benefits that we anticipate from such acquisitions, either as to amount or in the expected time frame, assumption of known and unknown liabilities, some of which may be difficult or impossible to quantify, non-cash impairment charges or other accounting charges relating to the acquired assets.

Interruptions of, or higher prices of components from our suppliers may affect our results of operations and financial performance.

A portion of our revenues are dependent on the distribution of products supplied by various key suppliers. We believe we have good supplier relationships and that we are generally able to obtain adequate pricing and other terms from our suppliers. However, if we fail to maintain satisfactory relationships with them or if our suppliers experience significant financial problems, we could experience difficulty in obtaining needed goods and services. Some suppliers could also decide to reduce inventories or raise prices to increase cash flow. The loss of any one or more of our suppliers could have an adverse effect on our business unless alternative manufacturing arrangements are secured.

The markets for our cinema products are highly competitive and if market share is lost, we may be unable to lower our cost structure quickly enough to offset the loss of revenue.

Within the cinema market, the domestic and international markets for our product lines are highly competitive, evolving and subject to rapid technological and other changes. We expect the intensity of competition in each of these areas to continue in the future due to a number of reasons including:

Certain of the competitors for our digital equipment have significantly greater resources than we do. Some of our competitors are manufacturing their own digital equipment, whereas, we employ a distribution business model through our distribution agreements with NEC, BARCO and certain other suppliers. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues.