

BALLANTYNE OF OMAHA INC
Form 10-Q
May 12, 2008

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 March 31, 2008

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 OF OMAHA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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 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 Smaller reporting company
(Do not check if a 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 May 6, 2008
Common Stock, \$.01, par value	13,858,438 shares

TABLE OF CONTENTS

		Page No.
PART I. Financial Information		
<u>Item 1.</u>	<u>Financial Statements</u>	1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4.</u>	<u>Controls and Procedures</u>	29
PART II. Other Information		
<u>Item 1.</u>	<u>Legal Proceedings</u>	30
<u>Item 1A.</u>	<u>Risk Factors</u>	30
<u>Item 6.</u>	<u>Exhibits</u>	30
	<u>Signatures</u>	31

Item 1. Financial Statements
Ballantyne of Omaha, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 2008 and December 31, 2007

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,514,328	\$ 4,220,355
Restricted cash	1,191,747	1,191,747
Short-term investments		13,000,000
Accounts receivable (less allowance for doubtful accounts of \$540,895 in 2008 and \$534,526 in 2007)	8,196,942	7,841,348
Inventories, net	11,074,144	9,883,555
Recoverable income taxes	1,645,315	1,365,530
Deferred income taxes	1,892,102	1,695,926
Consignment inventory	695,834	2,767,899
Other current assets	758,231	322,102
Total current assets	29,968,643	42,288,462
Investments in securities	11,957,280	
Investment in Digital Link II joint venture	3,626,588	3,727,485
Property, plant and equipment, net	3,702,518	3,633,124
Goodwill	2,420,869	2,420,993
Intangible assets, net	1,879,783	2,047,185
Other assets	18,757	23,099
Total assets	\$ 53,574,438	\$ 54,140,348
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 6,048,173	\$ 6,134,703
Warranty reserves	392,159	381,710
Accrued group health insurance claims	185,681	201,687
Accrued bonuses	78,550	54,178
Other accrued expenses	2,777,632	2,151,413
Customer deposits	1,250,110	974,910
Total current liabilities	10,732,305	9,898,601
Deferred income taxes	76,538	98,532
Other accrued expenses, net of current portion	1,169,351	1,101,517
Total liabilities	11,978,194	11,098,650
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value \$.01 per share; Authorized 1,000,000 shares, none outstanding		
Common stock, par value \$.01 per share; Authorized 25,000,000 shares; issued 15,956,243 shares in 2008 and 2007	159,562	159,562

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Additional paid-in capital	34,648,836	34,637,868
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	(218,693)	(59,427)
Pension liability adjustment, net of tax	75,833	75,833
Unrealized loss on investments in securities	(1,042,720)	
Retained earnings	23,288,880	23,543,316
	56,911,698	58,357,152
Less 2,097,805 common shares in treasury, at cost	(15,315,454)	(15,315,454)
Total stockholders' equity	41,596,244	43,041,698
Total liabilities and stockholders' equity	\$ 53,574,438	\$ 54,140,348

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries
Consolidated Statements of Operations
Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008		2007	
Net revenues	\$	14,197,172	\$	12,930,750
Cost of revenues		11,887,291		10,208,966
Gross profit		2,309,881		2,721,784
Selling and administrative expenses:				
Selling		787,802		782,616
Administrative		2,025,296		1,433,047
Total selling and administrative expenses		2,813,098		2,215,663
Gain on the transfer of assets				233,327
Loss on disposal of assets, net		(1,285)		(11,004)
Income (loss) from operations		(504,502)		728,444
Interest income		146,186		218,313
Interest expense		(8,535)		(10,257)
Equity in loss of joint venture		(112,991)		
Other income (expense), net		26,792		(48,021)
Income (loss) before income taxes		(453,050)		888,479
Income tax benefit (expense)		198,614		(315,740)
Net income (loss)	\$	(254,436)	\$	572,739
Basic earnings (loss) per share	\$	(0.02)	\$	0.04
Diluted earnings (loss) per share	\$	(0.02)	\$	0.04
Weighted average shares outstanding:				
Basic		13,858,440		13,765,897
Diluted		13,858,440		14,065,208

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (254,236)	\$ 572,739
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts	20,031	24,750
Provision for obsolete inventory	174,925	137,950
Depreciation of consignment inventory	299,441	257,400
Depreciation of property, plant, and equipment	219,566	269,978
Amortization of intangibles	110,768	17,667
Equity in loss of joint venture	112,991	
Loss on disposal of fixed assets	1,285	11,004
Deferred income taxes	(200,609)	(285,874)
Share-based compensation expense	18,498	29,338
Excess tax benefits from stock options exercised		(77,252)
Changes in assets and liabilities:		
Accounts receivable	(399,623)	(1,382,677)
Inventories	(1,397,141)	(4,426,102)
Consignment inventory	1,772,624	(67,235)
Other current assets	(398,911)	(355,593)
Accounts payable	(82,786)	5,562,455
Warranty reserves	10,891	(38,349)
Accrued group health insurance claims	(16,006)	24,407
Accrued bonus	24,372	
Other accrued expenses	694,042	207,647
Customer deposits	277,285	(72,543)
Current income taxes	(318,458)	244,418
Other assets		7,300
Net cash provided by operating activities	668,949	661,428
Cash flows from investing activities:		
Increase in acquisition costs	(46,969)	(183,364)
Investment in joint venture	(12,096)	
Increase in restricted investments		(4,483)
Capital expenditures	(299,180)	(109,565)
Proceeds from sales of investment securities		2,500,000
Net cash (used in) provided by investing activities	(358,245)	2,202,588
Cash flows from financing activities:		
Payments on long-term debt		(7,241)
Proceeds from exercise of stock options		32,339
Excess tax benefits from stock options exercised		77,252
Net cash provided by financing activities		102,350
Effect of exchange rate changes on cash and cash equivalents	(16,731)	
Net increase in cash and cash equivalents	293,973	2,966,366
Cash and cash equivalents at beginning of year	4,220,355	2,622,654
Cash and cash equivalents at end of year	\$ 4,514,328	\$ 5,589,020

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2008 and 2007

(Unaudited)

1. Company

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Ballantyne of Omaha, Inc., a Delaware corporation (Ballantyne or the Company), and its wholly-owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., and Strong Digital Systems, Inc., 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. Sales during the first quarter of 2008 were distributed as follows: Theatre 91%, Lighting 8% and Other 1%. Refer to the Business Segment Section (note 22) for further information.

2. Summary of Significant Accounting Policies

The principal accounting policies upon which the accompanying consolidated financial statements are based are summarized as follows:

a. Basis of Presentation and Principles of Consolidation

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The 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 consolidated financial statements included herein 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 Form 10-K filing. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for fiscal 2007.

In the opinion of management, the unaudited 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.

b. Use of Estimates

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The preparation of 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 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.

c. Trade Accounts Receivable

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows.

The Company maintained an allowance for doubtful accounts of \$540,895 and \$534,526 at March 31, 2008 and December 31, 2007, respectively. This allowance is developed based on several factors including overall customer credit quality, historical write-off experience and a specific analysis that projects the ultimate collectibility of the account. As such, these factors may change over time causing the reserve level to adjust accordingly.

d. Inventories

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Inventories are stated at the lower of cost (first-in, first-out) or market and include appropriate elements of material, labor and manufacturing overhead. Inventory balances are net of reserves of slow moving or obsolete inventory estimated based on management's review of inventories on hand compared to estimated future usage and sales.

e. Goodwill and Intangible Assets

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Goodwill represents the excess of cost over the fair value of assets of businesses acquired through purchase business combinations in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Goodwill and intangible assets that are determined to have an indefinite useful life are not amortized but instead tested for impairment at least annually as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends.

The impairment testing requires management to estimate the fair value of the assets or reporting unit. The estimate of the fair value of the assets is determined on the basis of discounted cash flows. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings in addition to other factors. The fair value of the reporting unit is then compared to the carrying amount of the assets to quantify an impairment charge as of the assessment date for the excess of the carrying amount of the reporting unit s assets over the fair value of the reporting unit s assets.

Intangible assets with estimatable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

f. Property, Plant and Equipment

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Significant expenditures for the replacement or expansion of property, plant and equipment are capitalized. Depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. For financial reporting purposes, assets are depreciated over the estimated useful lives of 20 years for buildings and improvements, 3 to 10 years for machinery and equipment, 7 years for furniture and fixtures and 3 years for computers and accessories. The Company generally uses accelerated methods of depreciation for income tax purposes.

g. Major Maintenance Activities

The Company incurs maintenance costs on all its major equipment. Repair and maintenance costs are expensed as incurred.

h. Income Taxes

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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 while the actual effective rate is calculated at year-end. 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 the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

i. Revenue Recognition

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company recognizes revenue from product sales upon shipment to the customer when collectibility is reasonably assured. Revenues related to services are recognized as earned over the terms of the contracts or delivery of the service to the customer.

The Company enters into transactions that represent multiple element arrangements, which may include a combination of services and asset sales. Under EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, multiple element

arrangements are assessed to determine whether they can be separated into more than one unit of accounting. A multiple element arrangement is separated into more than one unit of accounting if all of the following criteria are met.

- The delivered item(s) has value on a standalone basis;
- There is objective and reliable evidence of the fair value of the undelivered item(s);
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company.

If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered items(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item.

j. Fair Value of Financial Instruments

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements with respect to financial assets and liabilities. Under SFAS No. 157, fair value is the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange.

SFAS No. 157 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.

Financial instruments recorded by the Company at fair value include investments in available-for-sale securities which are reported in the Consolidated Balance Sheets.

In February 2008, the FASB issued FASB Staff Position No. 157-2 (FSP 157-2), Effective date of FASB Statement No. 157. FSP 157-2 delayed for one year the applicability of SFAS No. 157's fair value measurements for certain nonfinancial assets and liabilities. Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

k. Cash and Cash Equivalents

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

All highly liquid financial instruments with maturities of three months or less from date of purchase are classified as cash equivalents in the Consolidated Balance Sheets and Statements of Cash Flows.

l. Investments

The Company holds investments in auction-rate securities which are considered available-for-sale securities. Interest rates on these auction-rate securities are reset through an auction process that resets the applicable interest at pre-determined intervals every seven days. The Company accounts for its investments in accordance with Statement of Accounting Standards Board (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities . In accordance with the SFAS No. 115, the Company has classified its investments in auction-rate securities as noncurrent assets within the Consolidated Balance sheet.

When events or circumstances exist that require the Company to record an impairment on its investments, the Company will determine whether the impairment should be classified as temporary or other-than-temporary. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income (loss) component of stockholders' equity. Such an unrealized loss does not affect net income (loss) for the applicable accounting period. An other-than-temporary impairment charge is recorded as a realized loss in the consolidated statement of operations and reduces net income (loss) for the applicable accounting period. The differentiating factors between temporary and other-than-temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

m. Consignment Inventory

Digital and film projection equipment is provided to potential customers for consignment and demonstration purposes. Additionally, during 2007, the Company entered into operating lease agreements with third party customers for the use of the projection equipment of which a majority of the projection equipment was sold during the first quarter of 2008. Digital and film projection equipment on consignment amounted to approximately \$0.7 million and \$2.8 million at March 31, 2008 and December 31, 2007, respectively.

n. Earnings (Loss) Per Common Share

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company computes and presents earnings (loss) per share in accordance with SFAS No. 128, Earnings Per Share. Basic earnings (loss) per share has 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. The following table provides a reconciliation between basic and diluted income (loss) per share:

	Three Months Ended March 31,	
	2008	2007
Basic earnings (loss) per share:		
Income (loss) applicable to common stock	\$ (254,436)	\$ 572,739
Weighted average common shares outstanding	13,858,440	13,765,897
Basic earnings (loss) per share	\$ (0.02)	\$ 0.04
Diluted earnings (loss) per share:		
Income (loss) applicable to common stock	\$ (254,436)	\$ 572,739
Weighted average common shares outstanding	13,858,440	13,765,897
Assuming conversion of options outstanding		299,311
Weighted average common shares outstanding, as adjusted	13,858,440	14,065,208
Diluted earnings (loss) per share	\$ (0.02)	\$ 0.04

For the three months ended March 31, 2008, options outstanding were not included in the computation of diluted loss per share as the Company reported a loss from continuing operations available to common stockholders. For the three months ended March 31, 2007, options to purchase 181,388 shares of common stock at a weighted average price of

\$9.89 per share were outstanding, but were not included in the computation of diluted earnings per share as the options' exercise price was greater than the average market price of the common shares.

o. Stock Compensation Plans

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company accounts for awards of share-based compensation in accordance with FASB Statement No. 123(R), Share-Based Payment (SFAS No. 123(R)). This statement replaced FASB Statement No. 123, Accounting for Stock-Based Compensation (Statement 123) and supersedes APB No. 25. Statement 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. The Company recognizes compensation expense for stock-based awards based on estimated grant date fair value using the Black-Scholes option-pricing model.

Share-based compensation cost that has been included in income from operations amounted to \$18,498 and \$29,338 for the three months ended March 31, 2008 and 2007, respectively. No share-based compensation cost was capitalized as a part of inventory as of March 31, 2008.

p. Impairment of Long-Lived Assets

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company reviews long-lived assets, exclusive of goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company's most significant long-lived assets subject to these periodic assessments of recoverability are property, plant and equipment, which have a net book value of \$3.7 million at March 31, 2008. Because the recoverability of property, plant and equipment is based on estimates of future undiscounted cash flows, these estimates may vary due to a number of factors, some of which may be outside of management's control. To the extent that the Company is unable to achieve management's forecasts of future income, it may become necessary to record impairment losses for any excess of the net book value of property, plant and equipment over its fair value. In addition, the Company has long-lived assets which consist of the Company's equity method investment in a joint venture. The Company would recognize a loss when there is a loss in value of the equity method investment which is other than a temporary decline. No impairment existed at March 31, 2008.

q. Foreign Currency Translation

For foreign operations, local currencies are considered the functional currency. The assets and liabilities of foreign subsidiaries are translated into the United States dollar at the foreign exchange rates in effect at the end of the period. Revenue and expenses of foreign subsidiaries are translated using an average of the foreign exchange rates in effect during the period. Translation adjustments are not included in determining net income (loss) but are disclosed and accumulated in comprehensive income (loss) within the Consolidated Statements of Stockholder's Equity.

Transaction gains and losses that arise from foreign exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of operations as incurred.

r. Warranty Reserves

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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. The Company accrues for these costs at the time of sale or repair, when events dictate that additional accruals are necessary. The following table summarizes warranty activity for the periods indicated below:

	Three Months Ended March 31,	
	2008	2007
Warranty accrual at beginning of period	\$ 381,710	\$ 617,052
Charged to expense	48,999	43,250
Amounts written off, net of recoveries	(38,550)	(81,599)
Warranty accrual at end of period	\$ 392,159	\$ 578,703

s. Reclassifications

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Certain amounts in the accompanying Consolidated Financial Statements and notes thereto have been reclassified to conform to the 2008 presentation.

t. Adoption of New Accounting Pronouncements

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities . SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any eligible items.

u. Recently Issued Accounting Pronouncements

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) will be effective for the Company's business combinations occurring on or after January 1, 2009. Adoption on January 1, 2009 will impact the Company's accounting for future acquisitions and related transaction costs.

3. Investment in Digital Link II Joint Venture

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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. As of March 31, 2008, total current and non-current assets of the joint venture amounted to approximately \$0.3 million and \$9.0 million respectively. Total liabilities and equity at March 31, 2008 amounted to \$0.7 million and \$8.6 million, respectively. The joint venture reported a net loss for the period in the amount of \$0.3 million which primarily resulted from depreciation expense related to projection equipment on consignment to third party customers.

The Company's investment balance in the joint venture represents the retained interest in the cost basis of the projectors transferred or sold to the joint venture in addition to capital contributions and the Company's portion of equity earnings or losses in the LLC. As part of the initial transaction in 2007, the Company transferred \$6.2 million of equipment and related services to the LLC in exchange for a 44.4% ownership interest in the LLC and cash considerations. The gain on the initial transfer of equipment was approximately \$0.2 million. No revenue was recorded in conjunction with this transaction. Subsequently, during 2007, the Company sold \$2.6 million of equipment and related services to the LLC. The Company deferred a portion of the gross profit related to the transaction which represented 44.4% of total gross profit to be recorded on the sale. The additional gross profit on these transactions will be recognized upon sale of the equipment by the joint venture to the third party exhibitors. No sales transactions have been made in 2008. The total investment in the LLC amounted to \$3.6 million at March 31, 2008.

The Company accounts for its investment by the equity method. Under this method, the Company records its proportionate share of Digital Link II's net income or loss based on the most recently available financial statements. The Company's portion of losses of the LLC amounted to approximately \$0.1 million for the period ended March 31, 2008.

4. Acquisition of Technobeam

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

During the first quarter of 2007, the Company acquired certain assets of a business in the lighting segment from High End Systems, Inc. The Company made an initial payment of \$0.2 million. Additional consideration to be paid of up to \$150,000 is contingent upon satisfaction and attainment of certain future sales of the business product line. Direct transaction costs were not material to the acquisition.

The assets acquired and liabilities assumed were recorded at estimated fair values determined at the date of acquisition. During the fourth quarter of 2007, the Company completed the valuation of identifiable intangible assets that resulted from the acquisition. Based on the valuation, the Company allocated \$26,000 to intangibles related to the Technobeam trademark, \$51,000 relating to customer relationships and \$12,000 relating to the non-competition agreement.

The following table summarizes the estimated fair value of the assets acquired at the date of the acquisition:

Inventory	\$	83,364
Property and equipment		70,000
Amortizable intangible assets		89,000
Goodwill		91,000
Total assets acquired		333,364
Long-term liabilities		(150,000)
Net assets acquired	\$	183,364

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and are expected to be deductible for tax purposes. The results of Technobeam's operations have been included in the consolidated financial statements for the periods ended March 31, 2008 and 2007.

5. Acquisition of Marcel Desrochers, Inc.

On October 12, 2007, the Company, through a wholly-owned subsidiary, Strong Digital Systems, Inc., acquired 100% of the outstanding shares of Marcel Desrochers, Inc. (MDI), a manufacturer and supplier of film and digital cinema screens, for cash consideration. As a result of the acquisition, MDI will form a core business established to supply cinema screens to the digital and film cinema marketplace.

The total purchase price of MDI at the date of acquisition was \$2.5 million including cash acquired. The purchase price excluded an additional \$0.9 million of restricted funds that were placed in escrow to secure certain indemnification and other obligation contingencies. Funds for the purchase were provided by internally generated cash flows. Direct transaction costs related to the acquisition amounted to \$0.4 million.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Cash acquired	\$	100,118
Accounts receivable		583,245
Inventories		909,789
Property and equipment		205,714
Other current assets		26,098
Amortizable intangible assets		1,658,908
Goodwill		1,193,161
Total assets acquired		4,677,033
Current liabilities		(836,856)
Non-current liabilities		(1,012,604)
Total liabilities assumed		(1,849,460)
Net assets acquired	\$	2,827,573

The assets acquired and liabilities assumed were recorded at estimated fair values as determined by Company's management based on information currently available and preliminary independent appraisals. Based on the preliminary analysis, \$1.7 million of acquired intangible assets is subject to amortization using a weighted-average useful life of 4.7 years. The allocation of the purchase price is subject to revision, which is not expected to be material, based on the final determination of appraised and other fair values for intangibles. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and are expected to be deductible for tax purposes.

6. Investments

The Company has certain investments in auction-rate securities which are classified as available-for-sale securities. Interest rates on these auction-rate securities are reset through an auction process that resets the applicable interest at pre-determined intervals every seven days. The investment securities are held within closed-end funds that continue to be AAA rated and fully collateralized at a minimum 200% net asset to fund ratio. The auction-rate securities are perpetual investments with no stated contractual maturity date. The Company accounts for its investments in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities .

During the current period, the market for the Company's investments in auction-rate securities began experiencing a liquidity issue when the failure of auctions for all of the securities held by the Company occurred due to an imbalance of buyers and sellers for the securities. The Company cannot predict how long the current imbalance in the auction-market will continue. As a result, for a period of time, the Company may be unable to liquidate the auction rate securities held until a successful auction occurs or the securities are redeemed by the issuer of the investments. Based on the continued unsuccessful auctions of these investments, the investment securities were reclassified to noncurrent assets within the Consolidated Balance Sheet at March 31, 2008.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements with respect to financial assets and liabilities.

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2008 are summarized in the following table by the type of inputs applicable to the fair value measurements under the provisions of SFAS No. 157:

Description	3/31/08	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 11,957,280	\$	\$	\$ 11,957,280
Total	\$ 11,957,280	\$	\$	\$ 11,957,280

While the Company continues to earn interest on its investments at a maximum contractual default rate, these investments are not currently trading and therefore do not currently have a readily determinable fair value using market observables (Level 1). Therefore, in accordance with SFAS No. 157, Fair Value Measurement, the Company used a cash flow model to determine the estimated fair value of its auction-rate securities (Level 3). The assumptions used in preparing this model included, among other items, estimates for interest rates, default and recovery rates, illiquidity risk and an estimate for the timing of full redemption of the securities.

A reconciliation of assets and liabilities measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2008 to March 31, 2008 are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Investments in Auction-Rate securities
Beginning balance	\$ 13,000,000
Total gains or losses (realized/unrealized)	
Included in earnings (or changes in net assets)	
Included in other comprehensive income (loss)	(1,042,720)
Purchases, issuances and settlements	
Transfers in and/or out of Level 3	
Ending balance	\$ 11,957,280

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

The impairment in the fair value of the Company's investments of approximately \$1.0 million was deemed a temporary impairment and recorded as an unrealized loss within other comprehensive income (loss).

7. Intangible Assets

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

As of March 31, 2008 and December 31, 2007, the Company had unamortized identifiable net assets of \$1,879,783 and \$2,047,185, respectively. The following table details amounts relating to amortizable net assets:

	March 31, 2008	December 31, 2007
Amortizable intangible assets:		
Customer relationships	\$ 1,758,127	\$ 1,810,072
Trademarks	236,853	246,202
Non-competition agreement	166,910	167,658
	\$ 2,161,890	\$ 2,223,932
Accumulated amortization:		
Customer relationships	\$ (215,546)	\$ (137,958)
Trademarks	(36,930)	(17,870)
Non-competition agreement	(55,631)	(46,919)
	\$ (308,107)	\$ (202,747)

Additionally, the Company had intangible net assets of \$26,000 as of March 31, 2008 and December 31, 2007 with an indefinite life and therefore will not be amortized.

Intangible assets, other than goodwill, with definite lives are amortized over their useful lives.

During 2007, the Company purchased certain intangible assets pertaining to an agreement between High End Systems and the Company. The assets were recorded at fair value. Customer relationships are being amortized over a useful life of four years and non-compete intangibles are being amortized over a useful life of three years.

During 2007, the Company, through a wholly-owned subsidiary Strong Digital Systems, purchased certain intangible assets pertaining to the stock acquisition of Marcel Desrochers, Inc. These assets were recorded at fair value. Customer relationships and the non-competition agreement are being amortized over useful lives of five years and the trademark is being amortized over three years.

The Company recorded amortization expense relating to other identifiable intangible assets of \$110,768 and \$17,667 for the three months ended March 31, 2008 and 2007, respectively.

8. Goodwill

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

As of March 31, 2008 and December 31, 2007, the Company had unamortized goodwill of \$2,420,869 and \$2,420,993, respectively, resulting in a net decrease of \$124. The change in goodwill resulted from an increase in goodwill of \$46,969 for additional costs incurred in relation to the acquisition of Marcel Desrochers, Inc. The increase was offset by a decrease of \$47,093 related to foreign currency translation on goodwill recorded as part of the acquisition of Marcel Desrochers, Inc.

Goodwill represents the excess of cost over the fair value of assets of businesses acquired through purchase business combinations in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Goodwill and intangible assets that are determined to have an indefinite useful life are not amortized but instead tested for impairment at least annually as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends.

The impairment testing requires management to estimate the fair value of the assets or reporting unit. The estimate of the fair value of the assets is determined on the basis of discounted cash flows. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings in addition to other factors. The fair value of the reporting unit is then compared to the carrying amount of the assets to quantify an impairment charge as of the assessment date for the excess of the carrying amount of the reporting unit's assets over the fair value of the reporting unit's assets.

9. Inventories

Inventories consist of the following:

	March 31, 2008	December 31, 2007
Raw materials and components	\$ 6,412,883	\$ 4,911,345
Work in process	1,154,647	772,055
Finished goods	3,506,614	4,200,155
	\$ 11,074,144	\$ 9,883,555

The inventory balances are net of reserves of approximately \$2,130,000 and \$1,901,000 as of March 31, 2008 and December 31, 2007, respectively.

10. Property, Plant and Equipment

Property, plant and equipment include the following:

	March 31, 2008	December 31, 2007
Land	\$ 313,500	\$ 313,500
Buildings and improvements	3,962,989	3,962,989
Machinery and equipment	7,417,967	7,199,257
Office furniture and fixtures	1,707,274	1,662,578
	13,401,730	13,138,324
Less accumulated depreciation	(9,699,212)	(9,505,200)
Net property, plant and equipment	\$ 3,702,518	\$ 3,633,124

Depreciation expense of property, plant and equipment amounted to approximately \$220,000 and \$270,000 for the three months ended March 31, 2008 and 2007, respectively.

11. Income Taxes

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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 while the actual effective rate is calculated at year-end. 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 (loss) 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 the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has adopted the provisions of FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (*FIN 48*). *FIN 48* clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

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 2004 through 2006. In most cases, the Company has examinations open for State or local jurisdictions based on the particular jurisdictions statute of limitations. The Company does not currently have any examinations in process.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of tax expense in the consolidated statements of operations. Accrued interest and penalties were \$0.2 million as of March 31, 2008 and December 31, 2007, respectively. The accruals largely related to state tax matters.

12. Debt

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company is a party to a revolving credit facility (the Original Credit Facility) with First National Bank of Omaha expiring August 28, 2008. The Original Credit Facility provides for borrowings up to the lesser of \$4.0 million or amounts determined by an asset-based lending formula, as defined. Borrowings available under the credit facility amounted to \$4.0 million at March 31, 2008. No amounts are currently outstanding. The Company pays interest on outstanding amounts equal to the Prime Rate plus 0.25% (5.5% at March 31, 2008) and pay a fee of 0.125% on the unused portion.

Effective March 31, 2008, the Company entered into a Seventh Amendment to its Original Credit Facility to allow an interim extension of credit (the Interim Credit Facility) in the amount of \$10.4 million in addition to the \$4.0 million allowed under the Original Credit Facility. The Interim Credit Facility is evidenced by a Promissory Note with an interest rate set at a floating rate set to after-tax interest income received on certain investment securities as defined in the Seventh Amendment. The Interim Credit Facility expires on March 30, 2009. The credit facilities contain certain restrictions primarily related to restrictions on acquisitions and dividends. All of the Company's personal property and certain stock in its subsidiaries secure the credit facilities. No amounts are currently outstanding under either of the credit facilities.

13. Note Receivable

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

During July 2006, the Company entered into a note receivable arrangement with Digital Link, LLC (Digital Link) pertaining to the sale and installation of digital projectors. The sale amounted to \$780,000 of which 25% was due upon installation and was collected. The remaining amounts are due over a 5-year period at an 8% interest rate. At March 31, 2008, \$423,470 is due from Digital Link. Only the payments received since inception in 2006 on the note receivable totaling \$356,530 were recorded as revenue with the remaining amounts to be recognized as revenue in future periods when payment is received from Digital Link as described in the note receivable arrangement or when collections from Digital Link can be reasonably assured. Additionally, until collections from Digital Link can be reasonably assured, no receivable will be recorded on this transaction. The costs incurred with the sale of projectors to Digital Link were expensed during 2006 with no future associated costs to be incurred.

14. Supplemental Cash Flow Information

Supplemental disclosures to the consolidated statements of cash flows are as follows:

	Three Months Ended March 31,	
	2008	2007
Cash paid during the period for:		
Interest	\$ 1,278	\$ 5,383
Income taxes	\$ 281,782	\$ 357,196
Non-cash investing activities:		
Non-cash investment in joint venture	\$	\$ 2,358,251

15. Stock Compensation

Options

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company currently maintains a 2001 Non-Employee Directors Stock Option Plan (2001 Directors Plan) which has not been approved by the Company's stockholders. The plan exists to provide incentive to non-employee directors to serve on the Board and exert their best efforts. The 2001 Director's Plan provides an option to purchase common stock in lieu of all or part of the retainer paid to directors for their services. The Board of Directors fix the amount of the retainer fee for the coming year at least thirty days prior to beginning of plan year. At that time, each non-employee director may elect to receive stock options for all or part of the retainer fee to be provided.

In addition, the Company currently maintains a 2005 Outside Directors Stock Option Plan (2005 Outside Directors Plan) which has been approved by the Company's stockholders. The Company also maintained a 1995 Employee Stock Option Plan and a 1995 Directors Stock Plan which both expired in 2005, however, there are outstanding stock options remaining under these two expired plans.

All past and future grants under the Company's stock option plans were granted at prices based on the fair market value of the Company's common stock on the date of grant. The outstanding options generally vest over periods ranging from zero to three years from the grant date and expire between 5 and 10 years after the grant date.

A total of 1,105,690 shares of common stock have been reserved for issuance pursuant to the Company's stock option plans for directors at March 31, 2008.

No stock options were granted during the three months ended March 31, 2008 and 2007.

The Company accounts for awards of share-based compensation in accordance with FASB Statement No. 123(R), Share Based Payment (SFAS No. 123(R)). As a result, the Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The Company uses historical data among other factors to estimate the expected price volatility, the expected option life and the expected forfeiture rate. The risk-free rate is based on the U.S. Treasury yield in effect at the time of grant for the estimated life of the option. The Company has not and is not expected to pay cash dividends in the future. The Company policy is to record the fair value of the options to selling, general and administrative expenses on a straight-line basis over the requisite service period.

Earnings (loss) before income taxes included \$10,968 and \$24,519 of share-based compensation expense related to stock options, with associated tax benefits of approximately \$3,800 and \$9,100 for the three months ended March 31, 2008 and 2007, respectively.

SFAS No. 123(R) requires the cash flows resulting from tax deductions in excess of the compensation costs recognized for share-based payments (excess tax benefits) to be classified as financing cash flows. As such, excess tax benefits of \$77,252 were classified as financing cash flows for the three months ended March 31, 2007. No excess tax benefits were recognized for the period ended March 31, 2008.

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The following table summarizes the Company's activities with respect to its stock options for the three months ended March 31, 2008:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2007	443,750	\$ 2.33	\$ 3.41	\$ 1,594,983
Granted				
Exercised				
Forfeited				
Outstanding at March 31, 2008	443,750	\$ 2.33	\$ 3.16	\$ 1,105,079
Exercisable at March 31, 2008	428,000	\$ 2.26	\$ 3.16	\$ 1,100,826

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 March 31, 2008.

No options were exercised during the three months ended March 31, 2008. Cash received from option exercises under all plans for the three months ended March 31, 2007 was \$32,339. The actual tax benefit realized for the tax deductions from option exercises under all plans totaled \$77,252 for the three months ended March 31, 2007. The Company currently uses authorized and un-issued shares to satisfy share award exercises.

The following table summarizes information about stock options outstanding and exercisable at March 31, 2008:

Range of option exercise price	Number of options	Options Outstanding at March 31, 2008		Number of options	Exercisable at March 31, 2008	
		Weighted average remaining contractual life	Weighted average exercise price per option		Weighted average remaining contractual life	Weighted average exercise price per option
\$0.62 to \$1.19	283,625	3.76	\$ 0.67	283,625	3.76	\$ 0.67
\$4.25 to \$4.75	118,125	2.57	4.55	102,375	2.47	4.60
\$7.30	42,000	0.76	7.30	42,000	0.76	7.30
\$0.62 to \$7.30	443,750	3.16	\$ 2.33	428,000	3.16	\$ 2.26

As of March 31, 2008, the total unrecognized compensation cost related to non-vested stock option awards was approximately \$2,437 and is expected to be recognized over a weighted average period of 2 months.

Restricted Stock Plan

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

During 2005, the Company adopted and the stockholders approved, the 2005 Restricted Stock Plan. Under terms of the Plan, the compensation committee of the Board of Directors selects which employees of the Company are to receive restricted stock awards and the terms of such awards. The total number of shares reserved for issuance under the Plan is 250,000 shares. There have been no shares issued under the Plan since inception. The Plan expires in September 2010.

Employee Stock Purchase Plan

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company's Employee Stock Purchase Plan, approved by the stockholders, provides for the purchase of shares of Ballantyne common stock by eligible employees at a per share purchase price equal to 85% of the fair market value of a share of Ballantyne common stock at either the beginning or end of the offering period, as defined, whichever is lower. Purchases are made through payroll deductions of up to 10% of each participating employee's salary. The maximum number of shares that can be purchased by participants in any offering period is 2,000 shares. Additionally, the Plan has set certain limits, as defined, in regard to the number of shares that may be purchased by all eligible employees during an offering period. At March 31, 2008, 123,746 shares of common stock remained available for issuance under the Plan. The Plan expires in October 2010. The Company recorded \$7,530 and \$4,819 of share-based compensation expense pertaining to the stock

purchase plan with associated tax benefits of approximately \$1,100 for the three months ended March 31, 2008 and 2007, respectively. At March 31, 2008, the total unrecognized estimated compensation cost pertaining to the stock purchase plan was \$8,229 which is expected to be recognized over a period of seven months.

The fair value of option grants of \$1.94 and \$1.82 during the three months ended March 31, 2008 and 2007, respectively, was estimated using the following weighted average assumptions:

	2008	2007
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	1.55%	4.90%
Expected volatility	41.56%	36.2%
Expected life (in years)	1.0	1.0

16. Stockholder Rights Plan

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

On May 26, 2000, the Board of Directors of the Company adopted a Stockholder Rights Plan (the Rights Plan). Under terms of the Rights Plan, which expires June 9, 2010, the Company declared a distribution of one right for each outstanding share of common stock. The rights become exercisable only if a person or group (other than certain exempt persons, as defined) acquires 15 percent or more of Ballantyne common stock or announces a tender offer for 15 percent or more of Ballantyne s common stock. Under certain circumstances, the Rights Plan allows stockholders, other than the acquiring person or group, to purchase the Company s common stock at an exercise price of half the market price.

17. Postretirement Health Care

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Components of the net period benefit cost for the Company's post retirement health care plan includes:

	2008	2007
Net periodic benefit cost:		
Service cost	\$	\$ 2,979
Interest cost	4,974	5,418
Amortization of prior-service cost		5,598
Amortization of loss		
Total net periodic benefit cost	\$ 4,974	\$ 13,995

The Company expects to pay \$20,874 of benefits under its postretirement benefit plan in 2008. As of March 31, 2008, benefits of \$1,511 have been paid.

18. Subsequent Event

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

On April 9, 2008 the Company sold its Coater and Marinade product line for \$275,000 which is expected to result in a pre-tax gain of approximately \$247,000 (\$152,000 after-tax). The transaction will be recorded in the second quarter of fiscal year 2008. The product line was sold to a shareholder who is a former Chief Financial Officer of the Company.

19. Concentrations

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

The Company's top ten customers accounted for approximately 55% of 2008 consolidated net revenues and were primarily from the theatre segment. Trade accounts receivable from these customers represented approximately 54% of net consolidated receivables at March 31, 2008. Sales to Regal Cinemas, Inc. and Cinemark USA each represented over 10% of consolidated sales. Additionally, receivables from Vari International and Cinemark USA each represented over 10% of net consolidated receivables at March 31, 2008. 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 its significant customers could have a material adverse effect on the Company's business, financial condition and results of operations. It 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 it sells its products.

Financial instruments that potentially expose the Company to a concentration of credit risk primarily consist of accounts receivables. 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.

20. Self-Insurance

The Company is self-insured up to certain stop loss limits for group health insurance. Accruals for claims incurred but not paid as of March 31, 2008 and December 31, 2007 are included in accrued group health insurance claims in the accompanying consolidated balance sheets. The Company's policy is to accrue the employee health benefit accruals based on historical information along with certain assumptions about future events.

21. Litigation

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Ballantyne is currently a defendant in an asbestos case entitled *Larry C. Stehman and Leila Stehman v. Asbestos Corporation, Limited and Ballantyne of Omaha, Inc. individually and as successor in interest to Strong International, Strong Electric Corporation and Century Projector Corporation, et al*, filed December 8, 2006 in the Superior Court of the State of California, County of San Francisco. The Company believes that it has strong defenses and intends to defend the suit vigorously. It is not possible at this time to predict the outcome of this case, or the amount of damages, if any, that a jury may award. The plaintiffs have made no monetary demand upon Ballantyne. It is possible that an adverse resolution of this case could have a material adverse effect on the Company's financial position.

22. Business Segment Information

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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

As of March 31, 2008, 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 lamphouses and power supplies, sound systems, film handling equipment and the sale and service of xenon lamps, lenses and digital projection equipment. 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 gross profit. However, certain key operations of a particular segment are tracked on the basis of operating profit. All intercompany sales and costs are eliminated in consolidation.

Summary by Business Segments

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

	Three Months Ended March 31,	
	2008	2007
Net revenue		
Theatre		
Products	\$ 12,212,937	\$ 10,792,161
Services	766,761	935,380
Total theatre	12,979,698	11,727,541
Lighting	1,075,217	1,044,368
Other	142,257	158,841
Total revenue	\$ 14,197,172	\$ 12,930,750
Gross profit		
Theatre		
Products	\$ 2,215,100	\$ 2,178,541
Services	(265,614)	217,883
Total theatre	1,949,486	2,396,424
Lighting	299,573	253,576
Other	60,822	71,784
Total gross profit	2,309,881	2,721,784
Selling and administrative expenses:		
Selling	(787,802)	(782,616)
Administrative	(2,025,296)	(1,433,047)
Gain on transfer of assets		233,327
Loss on disposal of assets, net	(1,285)	(11,004)
Income (loss) from operations	(504,502)	728,444
Net interest income	137,651	208,056
Equity in loss of joint venture	(112,991)	
Other income (expense), net	26,792	(48,021)
Income before income taxes	\$ (453,050)	\$ 888,479
Expenditures on capital equipment		
Theatre		
Products	\$ 175,174	\$ 72,224
Services	114,319	31,732
Total theatre	289,493	103,956
Lighting	9,687	5,609
Total	\$ 299,180	\$ 109,565
Depreciation and amortization		
Theatre		
Products	\$ 555,171	\$ 486,095
Services	57,618	45,150
Total theatre	612,789	531,245
Lighting	16,986	13,800
Total	\$ 629,775	\$ 545,045
Loss on disposal of long-lived assets		
Theatre		
Products	\$ 1,285	\$ 11,004
Services		
Total theatre	1,285	11,004
Lighting		
Total	\$ 1,285	\$ 11,004

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

	Three Months Ended March 31,	
	2008	2007
Gain on transfer of assets		
Theatre		
Products	\$	\$ 233,327
Services		
Total theatre		233,327
Lighting		
Total	\$	\$ 233,327

	March 31,	December 31,
	2008	2007
Identifiable assets		
Theatre		
Products	\$ 47,144,736	\$ 47,442,283
Services	1,944,123	2,195,660
Total theatre	49,088,859	49,637,943
Lighting	4,098,498	3,970,457
Other	387,081	531,948
Total identifiable assets	\$ 53,574,438	\$ 54,140,348

Summary by Geographical Area

	Three Months Ended March 31,	
	2008	2007
Net revenue		
United States	\$ 10,170,981	\$ 10,454,244
Canada	493,553	75,380
Asia	1,777,785	1,338,105
Latin America	1,255,311	638,313
Europe	402,654	423,831
Other	96,888	877
Total	\$ 14,197,172	\$ 12,930,750

	March 31, 2008	December 31, 2007
Identifiable assets		
United States	\$ 45,075,869	\$ 45,359,184
Canada	5,641,333	5,762,761
Asia	2,857,236	3,018,403
Total	\$ 53,574,438	\$ 54,140,348

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.

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 forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including but not limited to: quarterly fluctuations in results; customer demand for our products; the development of new technology for alternate means of motion picture presentation; domestic and international economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amounts and on the terms required to support our future business; credit concerns in the theatre exhibition industry; and other risks detailed from time to time in our other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations. The risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. 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 risk 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. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while we do communicate with securities analysts from time to time, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we have a policy against issuing or confirming financial forecast or projections issued by others. Therefore, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of Ballantyne.

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of the Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

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 91% of fiscal year 2008 revenues were from theatre products, 8% were lighting products and 1% were from other products.

Critical Accounting Policies and Estimates

In preparing the Company's 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 the Company's historical experience.

Our accounting policies and estimates that are most critical to the presentation of the Company's 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 the Company's critical accounting policies under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the Company's year ended December 31, 2007. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. There were no significant changes in the Company's critical accounting policies during the three months ended March 31, 2008.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosures requirements to enable the evaluation of the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) are effective for the Company's business combinations occurring on or after January 1, 2009. Adoption on January 1, 2009 will impact the Company's accounting for future acquisitions and related transaction costs.

Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007

Revenues

Net revenues during the three months ended March 31, 2008 increased to \$14.2 million from \$13.0 million in 2007.

	Three Months Ended March 31,	
	2008	2007
Theatre		
Products	\$ 12,212,937	\$ 10,792,161
Services	766,761	935,380
Total theatre revenues	12,979,698	11,727,541
Lighting	1,075,217	1,044,368
Other	142,257	158,841
Total net revenues	\$ 14,197,172	\$ 12,930,750

Theatre Segment

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Sales of theatre products increased to \$13.0 million in 2008 from \$11.7 million in 2007 reflecting sales of digital projection equipment which increased to \$4.4 million from \$0.7 million in 2007. This increase was primarily due to recording revenue in 2008 for orders secured in 2007 and shipped during the fourth quarter of 2007 and the first quarter of 2008 on deferred payment terms. The remaining revenue increase resulted from the purchase of Marcel Desrochers, Inc. (MDI), a Canadian-based manufacturer of cinema projection screens, during the fourth quarter of 2007 and which generated \$1.0 million of revenue (excluding intercompany revenue) during the quarter.

Other theatre products experiencing higher sales included lenses which increased to \$0.5 million from \$0.4 million a year-ago. Sales of xenon lamps also rose during the quarter to \$1.9 million from \$1.6 million a year ago reflecting market share gains and increased business with one of the large theatre chains.

We did experience lower sales of film projection equipment which declined to \$2.7 million in 2008 from \$6.1 million a year-ago. The decline in sales resulted from a combination of equipment which could not be shipped due to credit considerations, customers delaying shipment dates and a general decline in demand due to the industry transition to digital cinema. Included in film equipment revenues were sales of used equipment which amounted to \$0.4 million compared to \$0.5 million a year-ago. These used units were obtained from theatre chains which have converted their film auditoriums to digital and had no further use for the film projectors. We see a short-term opportunity to buy and resell these units as they become available and which are in a suitable condition for us to be able to refurbish them in a profitable manner.

Service revenues also declined in 2008 to \$0.8 million from \$0.9 million a year-ago as the division is feeling the effects of the decline in the traditional film business without a corresponding increase in digital service due to the delay in the digital rollout.

Sales of replacement parts were also impacted by the industry transition falling to \$1.7 million from \$2.0 million during 2007.

Our top ten theatre customers accounted for approximately 60% of total theatre revenues compared to 53% a year-ago.

Lighting Segment

Sales of lighting products increased to \$1.1 million in 2008 from \$1.0 million a year-ago due to increased demand for follow spotlight sales which rose to \$0.7 million from \$0.5 million during 2007.

Replacement parts were flat at \$0.2 million for both 2008 and 2007 periods.

Sky-Tracker sales declined to less than \$0.1 million during 2008 from \$0.2 million a year-ago.

Sales of all other lighting products, including but not limited to, xenon lamps, britelights and nocturns amounted to \$0.2 million in 2008 from \$0.1 million in 2007.

Export Revenues

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Sales outside the United States (mainly theatre sales) rose to \$4.0 million in 2008 from \$2.5 million in 2007 resulting primarily from increased demand in Latin America and Asia. In addition, MDI, the Canadian subsidiary we purchased in late 2007 helped increase sales in Canada from \$0.1 million in 2007 to \$0.5 million in 2008. Export sales are sensitive to worldwide economic and political conditions that can lead to volatility. Additionally, certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit decreased to \$2.3 million in 2008 from \$2.7 million in 2007 and as a percent of revenue declined to 16.3% from 21.0% in 2007 due to the reasons discussed below.

Gross profit in the theatre segment fell to \$1.9 million in 2008 from \$2.4 million in 2007 and as a percentage of sales declined to 15.0% from 20.4% a year-ago. The margin reflects the transition to digital technology that is taking place in the theatre industry. During 2008 we sold \$4.4 million of digital equipment which we distribute through an agreement with NEC Corporation of America. The gross margin on these sales is significantly lower than the margin we currently experience on our film projectors. However, the sales price on the digital projectors is higher than what we receive on film projectors which causes the gross margin dollars to be more comparable. Our margin was also impacted by service revenues becoming a larger part of our business. The current service business primarily relates to servicing film projection equipment which is in a mature industry and at the same time, we are growing the infrastructure in anticipation of the upcoming digital cinema rollout. This combination is resulting in the division experiencing negative margins putting pressure on our overall margin. We expect this business to transition to servicing more digital projectors in the future when the digital cinema rollout accelerates. At that time, margins are expected to increase. Gross margins also continue to be impacted by higher manufacturing costs pertaining to purchasing in lower quantities, rising raw material costs and less manufacturing throughput in the Omaha plant to cover fixed overhead costs.

The gross profit in the lighting segment was comparable to the year-ago period at \$0.3 million but as a percent of revenues rose to 27.9% from 24.3% a year-ago. The results reflect a product mix consisting of the higher-margin spotlight business.

Selling and Administrative Expenses

Selling and administrative expenses increased to \$2.8 million in 2008 from \$2.2 million in 2007 and as a percent of revenue increased to 19.8% in 2008 from 17.1% in 2007.

Administrative costs increased to \$2.0 million or 14.3% of revenues compared to \$1.4 million or 11.1% a year-ago. During 2008, we experienced higher costs pertaining to our year-end audit and for Sarbanes/Oxley compliance resulting in additional costs of \$0.3 million compared to a year-ago. In addition we experienced an increase in professional fees pertaining to due diligence work performed on a terminated acquisition. Other items increasing administrative costs included hiring additional personnel to assist with Sarbanes/Oxley Compliance and adding additional management. Administrative expenses also rose by \$0.2 million pertaining to MDI, the Canadian subsidiary we purchased in the fourth quarter of 2007.

Selling expenses were comparable to 2007 at \$0.8 million, respectively, but as a percent of revenues declined to 5.5% from 6.1% a year-ago.

Other Financial Items

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

We recorded interest income of \$146,000 during 2008 compared to \$218,000 a year-ago as our average cash and investment balances were lower. Interest expense decreased to \$8,500 from \$10,200 in 2007.

We recorded an income tax benefit of \$0.2 million in 2008 compared to income tax expense of \$0.3 million in 2007. The change primarily resulted from a decrease in pre-tax income and the impact of tax-free interest income and foreign tax rates.

For the reasons outlined herein, we experienced a net loss of \$0.3 million and basic and diluted loss per share of \$0.02 in 2008, respectively, compared to net income of \$0.6 million and basic and diluted earnings per share of \$0.04 a year-ago, respectively.

Liquidity and Capital Resources

During the past several years, we have met our working capital and capital resource needs from our operating cash flows. We ended the first quarter with total cash and cash equivalents of \$4.5 million. Additionally, we have approximately \$12.0 million of investments in auction-rate securities (ARS) which are classified as available-for-sale securities. The ARS investments are held within closed-end funds which are AAA rated and fully collateralized at a minimum 200% net asset to fund ratio. The ARS are perpetual investments with no stated contractual maturity date. These investments are intended to provide liquidity via an auction process that resets the applicable interest rate every seven days allowing investors to either roll over their holdings or gain immediate liquidity by selling such investments at par.

During the current period, the market for our investments in auction-rate securities began experiencing a liquidity issue when failure of the auctions occurred for all securities we hold due to an imbalance of buyers and sellers for the securities. We cannot predict how long the current imbalance in the auction market will continue. As a result, for a period of time, we may be unable to liquidate the auction-rate securities held until a successful auction occurs. Based on the continued unsuccessful auctions of these investments, the investment securities were reclassified to noncurrent assets within the Consolidated Balance Sheet at March 31, 2008.

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS No.157) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements with respect to financial assets and liabilities. Under SFAS No. 157, fair value is the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange.

SFAS No.157 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.

Due to the continued imbalance of buyers and sellers in the market for auction-rate securities, quoted market prices in an active market or observable market based inputs and unobservable inputs corroborated by market data are not available. Therefore, to determine the fair value of the auction-rate securities, a third party valuation was performed using a cash flow model that required management to make certain projections and assumptions that would be used by market participants in the pricing of the auction-rate securities. The assumptions used in preparing this model included, among other items, estimates for interest rates, default and recovery rates, illiquidity risk and an estimate for the timing of full

redemption of the securities. Based on the valuations obtained, an impairment of approximately \$1.0 million was recorded.

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, an impairment in the fair value of the investment securities should be classified as temporary or other than temporary. The differentiating factors between a temporary and an other-than temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of a Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Based on this guidance we determined the impairment should be classified as temporary and will be recorded as an unrealized loss which is excluded from earnings and recorded in the other comprehensive income (loss) component of stockholders' equity.

We believe that as of March 31, 2008, there is sufficient capital to run our business with our cash position and our ability to draw on our credit facilities such that the current lack of liquidity in the auction-rate market will not have a material impact on our ability to fund our operations or interfere with our external growth plans. (See Note 6 to the Notes to Consolidated Financial Statements). We continue to receive interest at a maximum default rate on the auction-rate securities and believe, due to our ability to fund our operations while a current lack of liquidity exists in the auction-rate market and the attributes of the auction-rate securities held, the full value of the auction-rate securities held will be realized upon settlement in the future. However, if market conditions would deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses in other comprehensive income (loss) or impairment charges which could also impact our results of operations or liquidity and capital resources in future periods.

We are a party to a revolving credit facility (the **Original Credit Facility**) with First National Bank of Omaha expiring August 28, 2008. This credit facility provides for borrowings up to the lesser of \$4.0 million or amounts determined by an asset-based lending formula, as defined. Borrowings available under this credit facility amounted to \$4.0 million at March 31, 2008. No amounts are currently outstanding. We pay interest on outstanding amounts equal to the Prime Rate plus 0.25% (5.5% at March 31, 2008) and pay a fee of 0.125% on the unused portion. Effective March 31, 2008, we entered into a Seventh Amendment to our Original Credit Facility to allow an interim extension of credit (the

Interim Credit Facility) in the amount of \$10.4 million in addition to the \$4.0 million allowed under the Original Credit Facility. The Interim Credit Facility is evidenced by a Promissory Note with an interest rate set to a floating rate set to after-tax interest income received on certain investment securities as defined in the Seventh Amendment. The Interim Credit Facility expires on March 30, 2009. The credit facilities contain certain restrictions primarily related to restrictions on acquisitions and dividends. All of our personal property and certain stock in our subsidiaries secure the credit facilities. No amounts are currently outstanding under either of the credit facilities.

Net cash provided by operating activities amounted to \$0.7 million in both the 2008 and 2007 quarters. We achieved this despite experiencing a loss from operations due to turning a significant amount of our consignment inventory into cash resulting in a net inflow of cash of \$1.8 million from this inventory.

Net cash used in investing activities amounted to \$0.4 million in 2008 compared to cash provided by investing activities of \$2.2 million in 2007. During 2008 we incurred \$0.3 million of capital expenditures and invested \$0.1 million in our MDI subsidiary and our Joint Venture with RealD (Digital Link II). During 2007, investing outflows consisted of the \$0.2 million purchase of a product line within the lighting segment and capital expenditures of \$0.1 million. We did generate \$2.5 million in proceeds from the sale of investment securities during the first quarter of 2007.

Net cash provided by financing activities amounted to \$0.1 million in 2007 resulting primarily from activity related to our stock plans. We did not experience any financing activities in 2008.

Transactions with Related and Certain Other Parties

There were no significant transactions with related and certain other parties during the first quarter of fiscal year 2008.

Financial Instruments and Credit Risk Concentrations

Our top ten customers accounted for approximately 55% of 2008 consolidated net revenues and were primarily from the theatre segment. Trade accounts receivable from these customers represented approximately 54% of net consolidated receivables at March 31, 2008. Sales to Regal Cinemas, Inc. and Cinemark USA each represented over 10% of consolidated sales. Additionally, receivables from Vari International and Cinemark USA each represented over 10% of net consolidated receivables at March 31, 2008. While we believe our relationships with these 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 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. In addition, advancing technologies, such as digital cinema, could disrupt historical customer relationships.

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

Financial instruments that potentially expose us to a concentration of credit risk principally consist of investments in auction-rate securities and accounts receivable. See Note 6 to the Notes to Consolidated Financial Statements for further discussions of the risks related to holding auction-rate securities. 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.

Hedging and Trading Activities

We do not engage in any hedging activities, including currency-hedging activities, in connection with our foreign operations and sales. Historically, the majority of our international sales have been denominated in U.S. dollars. In addition, we do not have any trading activities that include non-exchange traded contracts at fair value.

Off Balance Sheet Arrangements and Contractual Obligations

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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

Contractual Obligations	Total	Payments Due by Period					
		2008	2009	2010	2011	2012	Thereafter
Non-competition agreement	100,000	25,000	25,000		50,000		
Postretirement benefits	212,415	19,363	22,320	17,829	18,895	19,878	114,130
Operating leases	1,309,690	245,654	283,852	280,414	280,414	219,356	
Contractual cash obligations	\$ 1,622,105	290,017	331,172	298,243	349,309	239,234	114,130

We have a contractual obligation to pay up to \$150,000 to High End Systems, Inc. Payment is contingent on satisfaction of certain future sales of the product line purchased as part of Technobeam® business. There were no other contractual obligations other than inventory and property, plant and equipment purchases in the ordinary course of business. In addition, we have accrued approximately \$0.2 million for the estimated underpayment of income taxes we may be obligated to pay.

Seasonality

Generally, our business exhibits a moderate level of seasonality as sales of theatre products typically increase during the third and fourth quarters. We believe that such increased sales reflect seasonal increases in the construction of new motion picture screens in anticipation of the holiday movie season.

Environmental and Legal

See Note 21 to the Consolidated Financial Statements for a full description of all environmental and legal matters.

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.

2008 Outlook

We have begun to see evidence of the theatre exhibition industry expected transition to digital cinema during 2008. Theatre owners are now evaluating their options as they plan capital expenditures relative to new or used film projectors or digital equipment. However, the extent and timing of the impact to our 2008 revenues and operations is currently unclear. Digital cinema remains an important component of our long-term growth strategy, and we continue to work closely with our partner, NEC Corporation of America, to launch this next generation technology within the exhibition industry.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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 majority 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. As stated above, the majority of our foreign sales are denominated in U.S. dollars except for our subsidiary in Hong Kong. We purchase the majority of our lenses from a German manufacturer. Based on forecasted purchases during 2008, an average 10% devaluation of the dollar compared to the Euro would cost us approximately \$0.1 million.

We are also exposed to foreign exchange risk through subsidiaries located in Canada and Asia. Based on historical data a 10% devaluation of the U.S. dollar would have less than a 1% impact to the Company.

We have also evaluated our exposure to fluctuations in interest rates. If we would borrow up to the maximum amount available under our variable interest rate Original Credit Facility, a one percent increase in the interest rate would increase interest expense by \$40,000 per annum. No amounts are currently outstanding under the credit facility. Interest rate risks from our other interest-related accounts such as our postretirement obligations are not deemed significant.

We have also evaluated our exposure to changes in the market price of our auction-rate securities as a result of the current liquidity in the auction-rate market. A one percent decrease in the average market price of our auction-rate securities would have an effect on comprehensive income of approximately \$0.1 million.

We have not historically and are not currently using derivative instruments to manage the interest rate and foreign currency risks.

Item 4. Controls and Procedures

Edgar Filing: BALLANTYNE OF OMAHA INC - Form 10-Q

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.

PART II. Other Information

Item 1. Legal Proceedings

A review of the Company's current litigation is disclosed in note 21 to the Consolidated Financial Statements.

Item 1A. Risk Factors

Item 1A, Risk Factors of the Company's 2007 Annual Report on Form 10-K includes a detailed discussion of the Company's risk factors. There have been no material changes to the risk factors as previously disclosed in Item 1A of the Form 10-K.

Item 6. Exhibits

See the Exhibit Index on page 32.

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 OF OMAHA, INC.

By: /s/ JOHN WILMERS
John Wilmers, President,
Chief Executive Officer, and Director

Date: May 12, 2008

By: /s/ KEVIN HERRMANN
Kevin Herrmann, Secretary/Treasurer
and
Chief Financial Officer

Date: May 12, 2008

EXHIBIT INDEX

- 4.2.8 Seventh Amendment to the Revolving Credit Agreement dated March 31, 2008 between the Company and First National Bank of Omaha, Inc. (incorporated by reference to Exhibit 4.1 to the Form 8-K as filed on April 4, 2008).
- 4.2.9 Secured Business Promissory Note dated March 31, 2008 between the Company and First National Bank of Omaha, Inc. (incorporated by reference to Exhibit 4.2 to the form 8-K as filed on April 4, 2008).
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer. •
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer. •
- 32.1 18 U.S.C. Section 1350 Certification of Chief Executive Officer. •
- 32.2 18 U.S.C. Section 1350 Certification of Chief Financial Officer. •

• - Filed herewith