BALLANTYNE STRONG, INC.
Form 10-K
March 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from to

Commission File No. 1-13906

Ballantyne Strong, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0587703** (I.R.S. Employer Identification No.)
13710 FNB Parkway, Suite 400 **Omaha, Nebraska** (Address of principal executive offices)	**68154** (Zip Code)

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

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

Title of each class	Name of exchange on which registered
Common Stock, $0.01 par value	**NYSE MKT**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller Reporting Company

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

The aggregate market value of the Company's voting common stock held by non-affiliates, based upon the closing price of the stock on the NYSE MKT on June 30, 2013 was $59,663,613. The Company does not have any non-voting common equity. As of March 10, 2014, 14,139,462 shares of common stock of Ballantyne Strong, Inc., were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 14, 2014 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking and reflect expectations for future Company performance. In addition, forward-looking statements may be made in press releases, orally, at conferences, on the Company's worldwide web site, or otherwise, by or on behalf of the Company. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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

PART I

Item 1. Business

General Description of Business

General

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

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

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

We have historically reported our results through two segments, Theatre and Lighting. However, based on our recent acquisition and change in strategy, we have re-segmented our business and will be reporting within two new business segments, Managed Services and Systems Integration. Segment information for 2011 and 2012 has been restated to conform to the current year's presentation. Approximately 82%, 91%, and 93% of our sales were from the Systems Integration segment for the years ended 2013, 2012, and 2011 respectively.

Strategy

Our strategy combines the following key elements:

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

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

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

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

Pursue Strategic Acquisitions. We are focused on identifying and completing acquisitions within areas where we can effectively leverage our strong competencies as an organization, including operations management, distribution and channel management, as well as our skillsets in integrating, installing and supporting advanced electronic components and software applications.

Operating Segments

Systems Integration

Overview

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

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

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

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

Products

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

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

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

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

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

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

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

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

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

Markets

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

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

Competition

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

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

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

Managed Services

Overview

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

Solutions

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

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

Products and Services

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

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

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

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

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

Markets

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

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

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

Competition

There are many players in the Digital Out-of-Home market whose expertise lies in software, media players or displays. Some of the key players include Four Winds Interactive, Stratacache, John Ryan, Newground, ComQi, and the digital signage divisions of Intel and NCR.

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

Subsidiaries

As of December 31, 2013 we have seven wholly-owned operational subsidiaries: Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Peintures Elite, Inc., Strong Westrex, Inc., Strong Westrex (Beijing) Trading Inc., Convergent Corporation and Convergent Media Systems Corporation

- Strong Technical Services, Inc. was formed in 2006 to service the film and digital cinema marketplace.
- Strong/MDI Screen Systems, Inc. manufactures cinema screens and related accessories.
- Peintures Elite, Inc. was acquired in 2013 and subsequently consolidated into Strong/MDI Screen Systems, Inc. as of January 1, 2014.
- Strong Westrex, Inc. is the holding company for our sales and service office in Hong Kong.
- Strong Westrex (Beijing) Trading Inc. a/k/a American West Beijing Trading Company, Ltd. is located in Beijing, China and is our sales and service business for China.
- Convergent Corporation is a holding company of Convergent Media Systems Corporation.
- Convergent Media Systems Corporation performs all digital signage solutions and services.

Manufacturing

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

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

Quality Control

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

Trademarks

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

Employees

We employed 298 persons on a full-time basis at December 31, 2013. Of these employees, 71 were considered manufacturing, 5 were executive, 127 were service related and 95 were considered sales and administrative. We are not a party to any collective bargaining agreement.

Executive Officers of the Company

Gary L. Cavey, age 64, has been our President, CEO and a member of the Board of Directors since November of 2010.

Christopher D. Stark, age 53, assumed the responsibilities of VP-Operations in May of 2007 and is currently Senior Vice President and Chief Operating Officer.

Ray F. Boegner, age 64, has been Senior Vice President since 1997. Mr. Boegner joined us in 1985 and has acted in various sales roles for our Company.

Mary A. Carstens, age 57, serves as Senior Vice President, Chief Financial Officer and Treasurer. Ms. Carstens assumed the role of Chief Financial Officer in July of 2011.

David G. Anderson, age 59, serves as Senior Vice President, General Counsel and Secretary. Mr. Anderson assumed the roles in November of 2012.

Information available on Ballantyne Website

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

- Code of Ethics
- Corporate Governance Principles, including procedures for bringing concerns or complaints to the attention of the Board, any Committee or any individual Director.
- Audit Committee Charter
- Nominating and Corporate Governance Committee Charter
- Compensation Committee Charter

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

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

Financial Information About Geographic Areas

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

- Certain of the competitors for our digital equipment have significantly greater resources than we do.
- Some of our competitors are manufacturing their own digital equipment, whereas, we employ a distribution business model through our distribution agreements with NEC, BARCO and certain other suppliers. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues.
- Suppliers could decide to utilize their current sales force to take their products direct to customers versus utilizing channels

If we are not able to develop and introduce enhancements and new features that achieve market acceptance or that keep pace with technological developments, our business could be harmed.

We operate in a dynamic environment characterized by rapidly changing technologies and industry and legal standards. The introduction of new software solutions by our competitors, the market acceptance of solutions based on new or alternative technologies, or the emergence of new industry standards could render our platform obsolete. Our ability to compete successfully, attract new customers and increase revenues from existing customers depends in part on our ability to enhance and improve our existing software platform and to continually introduce or acquire new features that are in demand by the market we serve. The success of any enhancement or new solution depends on several factors, including timely completion and integration, adequate quality testing, introduction and market acceptance. Any new platform or feature that we develop or acquire may not be introduced in a timely or cost-effective manner, may contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to anticipate or timely and successfully develop or acquire new offerings or features or enhance our existing platform to meet customer requirements, our business and operating results will be adversely affected. Additionally, for technologies that are acquired, we may not be able to successfully integrate or monetize the acquired technology at a rate that is consistent with the market's expectations.

Our sales cycle can be long and unpredictable, particularly with respect to large enterprises, which could harm our business and operating results.

The timing of our sales is difficult to predict. Our sales efforts involve educating our customers, frequently at an executive level, about the use, potential return on investment, technical capabilities, security and other benefits of our platform. Customers often undertake a prolonged product-evaluation process which frequently involves not only our solutions but also those of our competitors. As we continue to target our sales efforts at large enterprise customers, we will face greater costs, long sales cycles and less predictability in completing some of our sales. In this market segment, the customer's decision to subscribe to our platform is often an enterprise-wide decision and, may require us to provide even greater levels of education regarding the use and benefits of our platform and obtain support from multiple departments. In addition, prospective enterprise customers may require customized features and functions unique to their business process that may need acceptance testing related to those unique features. As a result of these factors, these sales opportunities may require us to devote greater sales support, operational support and professional services resources to individual customers, increasing costs and time required to complete sales and diverting our own sales and professional services resources to a smaller number of larger transactions.

We are substantially dependent upon significant customers who could cease purchasing our products at any time.

The Company's top ten customers accounted for approximately 42.8% of 2013 consolidated net revenues and were from the systems integration segment. Trade accounts receivable from these customers represented approximately 39.6% of net consolidated receivables at December 31, 2013. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company's significant customers could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has recorded deferred tax assets that are subject to annual valuation testing.

At December 31, 2013, we have recorded net deferred tax assets of $2.9 million. In assessing the ability to realize the 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. If it would be determined that some or all of these assets would not be realized, valuation reserves would be required which would have a material adverse effect on our results of operations.

Our business is subject to the economic and political risks of selling products in foreign countries.

Sales outside the United States (mainly cinema) continue to be significant, accounting for approximately 35% of consolidated sales in fiscal 2013, which include $16.6 million of sales in China. This compared to 19% in 2012 of which $15.7 were generated in China. Foreign sales are subject to political and economic risks, including political instability, currency controls, fluctuating exchange rates with respect to sales not denominated in U.S. dollars, changes in import/export regulations, tariffs and freight rates. A significant amount of our foreign sales are denominated in foreign currencies and amounted to $22.4 million in 2013. To the extent that orders are denominated in foreign currencies, our reported sales and earnings are subject to foreign exchange fluctuations. In addition, there can be no assurance that our remaining international customers will continue to accept orders denominated in U.S. dollars. For those sales which are denominated in U.S. dollars, a weakening in the value of foreign currencies relative to the U.S. dollar could have a material adverse impact on us by increasing the effective price of our products in international markets. Certain areas of the world are also more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers. We are also exposed to foreign currency fluctuations between the Canadian and U.S. dollar due to our screen manufacturing facility in Canada where a majority of their sales are denominated in the U.S. dollar while their expenses are denominated in Canadian currency. We cannot assure that these factors will not adversely affect our foreign activities in the future.

The risk of non-compliance with U.S. and foreign laws and regulations applicable to our international operations could have a significant impact on our results of operations, financial condition or strategic objectives.

Our global operations subject us to regulation by U.S. federal and state laws and multiple foreign laws, regulations and policies, which could result in conflicting legal requirements. These laws and regulations are complex, change frequently, have tended to become more stringent over time and increase our cost of doing business. These laws and regulations include import and export control, environmental, health and safety regulations, data privacy requirements, international labor laws and work councils and anti-corruption and bribery laws such as the U.S. Foreign Corrupt Practices Act, the U.N. Convention Against Bribery and local laws prohibiting corrupt payments to government officials. We are subject to the risk that we, our employees, our affiliated entities, contractors, agents or their respective officers, directors, employees and agents may take action determined to be in violation of any of these laws, particularly as we expand our operations through organic growth and acquisitions. An actual or alleged violation could result in substantial fines, sanctions, civil or criminal penalties, and debarment from government contracts, curtailment of operations in certain jurisdictions, competitive or reputational harm, litigation or regulatory action and other consequences that might adversely affect our results of operations, financial condition or strategic objectives.

A challenging global economic environment or a downturn in the markets we serve could adversely affect our operating results and stock price in a material manner.

The current issues in the global credit markets and weak worldwide economies may continue to negatively impact the markets we serve. This environment could serve to reduce demand for our products and adversely affect our operating results. These economic conditions may also impact the financial condition of one or more of our key suppliers which could affect our ability to secure product to meet our customers' demand. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.

We rely extensively on our information technology systems and are vulnerable to damage and interruption.

We rely on our information technology systems and infrastructure to process transactions, summarize results, and manage our business, including maintaining client information. Our information technology systems are potentially vulnerable to outages and deliberate intrusion. Likewise, data security incidents and breaches by employees and others with or without permitted access to our systems pose a risk that sensitive data may be exposed to unauthorized persons or to the public. Additionally, we utilize third parties, including cloud providers, to store, transfer and process data. While we have taken measures to protect our data and information technology systems, there can be no assurance that our efforts will prevent outages or security breaches in our systems that could adversely affect our results of operations and cash flows, as well as our business reputation.

If we fail to retain key members of management, our business may be materially harmed.

Our success depends, in substantial part, on the efforts and abilities of our current management team. Many of these individuals have acquired specialized knowledge and skills with respect to Ballantyne and its operations. If certain of these individuals were to leave unexpectedly, we could face difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience.

Our stock price is vulnerable to significant fluctuations.

The trading price of our common stock has been highly volatile in the past and could be subject to significant fluctuations in response to variations in quarterly operating results, general conditions in the industries in which we operate and other factors. In addition, the stock market is subject to price and volume fluctuations affecting the market price for the stock of many companies generally, which fluctuations often are unrelated to operating performance.

Item 1B. Unresolved Staff Comments

The Company has no unresolved staff comments to report pursuant to this item.

Item 2. Properties

Our headquarters and NOC are located at 13710 FNB Parkway, Omaha, Nebraska, where we lease office space. The premises are used for offices and operating the NOC. The lease expires in April 2023. In addition, our subsidiaries owned or leased the following facilities as of December 31, 2013.

- Our Strong/MDI Screen Systems, Inc. subsidiary owns a 75,000 square-foot manufacturing plant in Joliette, Quebec, Canada. The facilities are used for offices, manufacturing, assembly and distribution of the cinema screens. We believe this facility is well maintained and adequate for future needs.

- Our Strong Westrex (Beijing) Trading Inc. subsidiary leases office space in Beijing and certain other cities in China. The leases expire between August and December 2014.

- We also lease office space in Hong Kong. The lease expires November 2014.

- Our Convergent Media Systems Corporation subsidiary owns a 43,000 square-foot office facility in Alpharetta, Georgia. The facilities are used for offices and operating the NOC used to service our digital signage customers. Convergent also leases our distribution facility which is located at 975 Old Norcross Road, Suite D, Lawrenceville, Georgia, where we lease approximately 40,000 square feet. The lease expires in March 2016. The premises are used for distribution and manufacture of certain products.

We do not anticipate any difficulty in retaining occupancy of any leased facilities, either by renewing leases prior to expiration or replacing them with equivalent leased facilities.

Item 3. Legal Proceedings

In the ordinary course of our business operations, we are involved, from time to time, in certain legal disputes. No such disputes, individually or in the aggregate, are expected to have a material effect on our business or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed and traded on the NYSE MKT under the symbol "BTN". The following table sets forth the high and low per share sale price for the common stock as reported by the NYSE MKT.

		High	Low
2013	First Quarter	$4.29	$3.25
	Second Quarter	4.80	3.91
	Third Quarter	4.53	3.97
	Fourth Quarter	5.15	4.10
2012	First Quarter	$5.37	$4.06
	Second Quarter	6.48	5.26
	Third Quarter	6.02	4.03
	Fourth Quarter	4.54	3.09
2011	First Quarter	$8.01	$6.18
	Second Quarter	7.28	4.69
	Third Quarter	4.77	3.08
	Fourth Quarter	4.23	2.76

According to the records of our transfer agent, we had 134 stockholders of record of our common stock on March 10, 2014. Because brokers and other institutions hold many of our shares on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The last reported per share sale price for the common stock on March 10, 2014 was $4.90. We had 14,139,462 shares of common stock outstanding on March 10, 2014.

Dividend Policy

We intend to retain our earnings to assist in financing our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. The declaration and payment of dividends by the Company are also subject to the discretion of the Board. Any determination by the Board as to the payment of dividends in the future will depend upon, among other things, business conditions, our financial condition and capital requirements, as well as any other factors deemed relevant by the Board. We have not paid cash dividends since we went public in 1995.

Equity Compensation Plan Information

The following table sets forth information regarding our Stock Option, Restricted Stock and Stock Purchase Plan Agreements as of December 31, 2013.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted average exercise price of outstanding options, warrants and rights(2) (b)**	**Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)**	
Equity compensation plans approved by security holders	161,500	4.54	373,500	(1)
Equity compensation plans not approved by security holders	—	—	—	
Total	161,500	4.54	373,500	(1)

(1) Includes 373,500 securities for our 2010 Long-Term Incentive Plan.

PERFORMANCE GRAPH

The following graph compares Ballantyne's cumulative total stockholder return over the last five fiscal years with the Standard and Poor's 500 Index® ("S&P 500"), the cumulative total returns of the New York Stock Exchange Composite Index ("NYSE"), the Russell 2000 Index and the Research Data Group, Inc. ("RDG") SmallCap Technology Index. The graph assumes $100 was invested on December 31, 2008, and assumes reinvestment of all dividends.

	12/08	12/09	12/10	12/11	12/12	12/13
Ballantyne Strong, Inc.	100.00	303.25	631.71	332.52	268.29	376.42
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19
NYSE Composite	100.00	128.28	145.46	139.87	162.23	204.87
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
RDG SmallCap Technology	100.00	136.36	171.09	129.25	123.08	153.30

Item 6. Selected Financial Data

The selected statement of operations data for the years ended December 31, 2013, 2012, and 2011, and the selected balance sheet data at December 31, 2013 and 2012, are derived from, and are qualified by reference to, the audited consolidated financial statements of the Company included elsewhere in this Annual Report on Form 10-K. The selected statement of operations data for the years ended December 31, 2010 and 2009, and the balance sheet data at December 31, 2011, 2010, and 2009, are derived from audited consolidated financial statements not included herein. The Company has made acquisitions during the five years covered by the selected statement financial data. See Note 3 to the Company's consolidated financial statements.

	Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
	(in thousands, except per share data)				
Statement of operations data					
Net revenue	$103,610	$169,084	$184,433	$136,335	$72,146
Gross profit	$16,845	$22,594	$30,213	$24,739	$14,732