BALLANTYNE OF OMAHA INC
Form 10-K/A
June 30, 2008

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the Fiscal Year ended December 31, 2007

OR

o **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 of Omaha, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**47-0587703**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4350 McKinley Street, Omaha, Nebraska	**68112**
(Address of principal executive offices)	(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	**American Stock Exchange**

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 o No ý

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 o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý

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 o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 American Stock Exchange on June 30, 2007 was approximately $81.4 million. The Company does not have any non-voting common equity.

As of March 28, 2008, 13,858,438 shares of common stock of Ballantyne of Omaha, 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 21, 2008 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

Explanatory Note

Ballantyne of Omaha, Inc. (the "Company") is filing this Amendment No. 1 (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the "Form 10-K") to reflect the inclusion of separate financial statements of Digital Link II, LLC, a fifty percent or less owned entity of the Company, as required under Rule 3-09 of Regulation S-X. The separate financial statements required are attached as Exhibit 99. The Amendment did not impact the Company's revenue, net income, total assets, stockholders' equity or earnings per share.

Except for Item 15(a)3 of Part IV, no other information included in the Form 10-K is being amended. The remaining Items contained within this Amendment consist of all other Items originally contained in the Form 10-K and are included for the convenience of the reader. This Amendment continues to speak as of the date of the original filing of the Form 10-K and the Company has not updated the disclosure in this Amendment to speak as of any later date. Accordingly, this Form 10-K/A should be read in conjunction with Company filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

Certain statements made in this report on Form 10-K are "forward-looking" in nature, as defined in the Private Litigation Reform Act of 1995, which involve 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.

PART I

Item 1. Business

(a) General Description of Business

General

We are a manufacturer, distributor and service provider to the theatre exhibition industry on a worldwide basis. Through our Strong® trademark, we can fully outfit and automate a theatre projection booth. We also design, develop, manufacture and distribute lighting systems to the worldwide entertainment lighting industry through our Strong Entertainment lighting division.

We are a Delaware Corporation and maintain our corporate office and primary manufacturing facilities in Omaha, Nebraska. We were founded in 1932 and went public in 1995. Our shares are traded on the American Stock Exchange under the symbol BTN. We primarily operate within two business segments, theatre and lighting. Approximately 91% of fiscal year 2007 sales were from theatre products, 8% were lighting products and 1% were from all other products.

Acquisitions/Investments

During the fourth quarter of 2007, we, through a wholly owned subsidiary, Strong Digital Systems, acquired Marcel Desrochers, Inc. (MDI), a Canadian manufacturer of screen systems for the North American cinema screen market. The addition of MDI expands the breadth of our product lines for the cinema industry. MDI is based in Joliette, Canada.

During the first quarter of 2007, we acquired certain assets of a product line in the lighting segment called the Technobeam from High End Systems, Inc. The Technobeam light projects logos, images and textures for the entertainment lighting industry.

On March 6, 2007, we 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 Ballantyne 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.

During fiscal 2006, we acquired certain assets and assumed certain liabilities of National Cinema Service Corp. (NCSC). This business was folded into a wholly-owned subsidiary, Strong Technical Services, Inc. (STS). STS was formed for the purpose of becoming a national provider of cinema services including film and digital projector maintenance, repair, equipment installations, site surveys and other services.

Divestitures

During the fourth quarter of 2007, we completed the sale of substantially all of the assets and liabilities of Design & Manufacturing, Inc. ("Design"). Design manufactured our film handling equipment which we sell to the theatre industry. We will continue to distribute the full line of film handling equipment with the difference being the product will now be purchased from the party who acquired Design at certain third-party agreed-upon pricing. This divestiture will not be classified as discontinued operations.

(b) Operating Segments

We conduct our operations through two primary business segments: Theatre and Lighting. The presentation of segment information reflects the manner in which management assesses performance.

Theatre: This segment consists of the manufacture, distribution and service of film and digital projection equipment and accessories for the motion picture exhibition industry.

Lighting: This segment consists of the design, manufacture and distribution of lighting systems to the worldwide entertainment lighting industry.

Refer to the Business Segment Section set forth in Note 21 of our consolidated financial statements for further information concerning the amounts of revenues, profits and total assets attributable to each segment for the last three fiscal years.

(c) Narrative Description of Business

The following information describes the principal products produced, services rendered, principal markets for, and methods of distribution of each business segment of the Company.

Theatre Segment

<u>Overview</u>

The domestic theatre exhibition industry (including Canada) is highly concentrated with management estimating that the top ten exhibitors represent over 56% of the total industry. Based on information obtained from the National Association of Theatre Owners, there were approximately 37,000 screens in the United States. Although the theatre exhibition industry remains primarily based on the use of film technology to deliver motion picture images to the public, the transition to digital images (digital cinema) achieved measurable progress in 2007 after several years of research and development. Factors which have limited the digital cinema implementation in the past have included high digital system costs; product availability for digital cinema; security, control and implementation issues, and a lack of standards for system quality and interoperability. Though digital cinema offers significant potential savings via reduced film delivery and handling costs to movie distributors, the financial models to justify the expenditures required by the exhibitor had been limited up to now. Digital Cinema Initiatives LLC ("DCI"), a venture created by the major motion picture studios, has made significant progress in resolving these standards and technology issues. In addition, there have been several business plans created to solve the issue of which party would pay for the substantial costs of retrofitting theatre locations currently using film-based projection equipment. Many models now provide a method whereby the motion picture studios or other content providers pay for the digital equipment over time via Virtual Print Fees to third party facilitators each time a projector shows a movie digitally. However, other means of financing could arise as the digital cinema business models mature.

Products

Digital Equipment Through a master reseller agreement with NEC Corporation of America ("NEC"), we distribute Starus DLP Cinema projectors. NEC offers the Starus NC2500S for large screen multiplexes, the NC1600C for medium-sized screens and the Starus NC800C for small theatres. All of the projectors use the DLP cinema technology from Texas Instruments. The Starus NC2500S is designed for multiplexes with large screens 49 feet wide and larger. The projector delivers 2K (2048 × 1080) contrast images (2000:1). The Starus NC1600C projector is designed for medium-sized screens 26-49 feet wide. The Starus NC800C projector is designed for screens 10 to 25 feet wide to employ DC 2K DMD technology at 2048 × 1080 pixel native resolution.

Motion Picture Projection Equipment We are a developer, manufacturer and distributor of commercial motion picture projection equipment worldwide. Our commercial motion picture projection equipment can fully outfit and automate a motion picture projection booth and consists of 35mm and 70mm motion picture projectors, xenon lamphouses and power supplies, a console system combining a lamphouse and power supply into a single cabinet, soundhead reproducers and related products such as sound systems. The commercial motion picture projection equipment is marketed under the industry-wide recognized trademarks of Strong®, Simplex®, Century® and Ballantyne®. We manufacture the majority of the motion picture projection systems in-house, except for the audio rack components, lamps and lenses. This equipment may be sold individually or as an integrated system with other components manufactured by us.

We also distribute film handling equipment consisting of a three-deck or five-deck platter and a make-up table, which allows the reels of a full-length motion picture to be spliced together, thereby eliminating the need for an operator to change reels during the showing of the motion picture. Our film transport systems are sold under the Strong® name.

Lenses We have the exclusive distribution rights to sell ISCO-Optic film projection lenses throughout North America and also distribute these lenses on a non-exclusive basis throughout the rest of the world. ISCO lenses have developed a reputation for delivering high-image quality and resolution over the entire motion picture screen and have won two Academy Awards for technical achievement.

Xenon Lamps We distribute xenon lamps for resale to the theatre and lighting industries through an exclusive distributorship agreement with Lighting Technologies, Inc.

Replacement Parts We have a significant installed base of over 50,000 motion picture projection systems. Although these products have an average useful life in excess of 20 years, periodic replacement of components is required as a matter of routine maintenance, in most cases, with parts manufactured by our Company.

Service & Maintenance During fiscal 2006, we acquired National Cinema Service Corp. (NCSC) and folded it into a wholly-owned subsidiary, Strong Technical Services, Inc. (STS). STS is now a national provider of cinema services including film and digital projector maintenance, repair, installations, site surveys and other services. STS also installs and repairs audio and advertising equipment as well as other electronic equipment in a theatre auditorium such as theatre management systems, servers and other equipment. We believe that there will be increased demand for service due to the upcoming digital conversion as theatre operators may not have the necessary technical expertise to maintain the sophisticated nature of digital projectors and accessories. In addition, we feel that there are opportunities to provide service for other items at a theatre complex.

Markets

Our theatre business was founded in 1932. Our broad range of both standard and custom-made equipment along with other ancillary equipment can completely outfit and automate a motion picture projection booth and is currently being used by major motion picture exhibitors such as Regal Cinemas, Inc. and AMC Entertainment, Inc.

We market and sell our products to end users and through a network of domestic and international dealers to major theatre exhibitors and amusement park operators. During the past few years we have increasingly sold directly to the end-users thereby bypassing this distribution network. We believe this trend will continue in the future and will change how we market our products to the industry due in large part to the shift to digital cinema. This shift in the supply chain benefits us in reducing credit exposure, as the exhibitors are generally larger entities with more access to capital. Sales and marketing professionals principally develop business by maintaining regular personal customer contact including conducting site visits, while customer service and technical support functions are dispatched when needed. In addition, we market our products in trade publications such as *Film Journal* and *Box Office* and by participating in annual industry trade shows such as ShoWest, ShowEast, CineAsia in Asia and Cinema Expo in Europe, among others. Our sales and marketing professionals have extensive experience with the Company's product lines and have long-term relationships with many current and potential customers.

We believe our installed base of equipment and customer relationships along with expertise in engineering, manufacturing, prompt order fulfillment, delivery, after-sale technical support and emergency service have allowed us to build and maintain these relationships. These relationships will serve us well in the future as the theatre industry transitions to digital cinema.

Competition

The markets for commercial motion picture projection equipment are highly competitive. Major competitors include Christie Digital Systems, Cinemeccanica SpA and Kinoton GmbH. We compete in the commercial motion picture projection equipment industry primarily on the basis of quality, fulfillment and delivery, price, after-sale technical support and product customization capabilities.

In addition to existing motion picture equipment manufacturers, we are now encountering competition from new competitors due to the development of digital cinema technology. We cannot assure that our equipment, whether it be film or digital equipment will not eventually become obsolete as technology advances. Competition in the digital cinema market includes two other licensed OEM's of the preferred Texas Instruments' DLP Cinema technology in addition to the Company's partner, NEC; Christie Digital Systems and Barco NV. There are also other companies, such as SONY, using different digital technologies attempting to enter the marketplace. For a further discussion of potential new competition, see the "Business Strategy" section of this report under the caption "Expand Digital Opportunities".

Certain competitors for our film and digital equipment have significantly greater resources than Ballantyne.

Lighting Segment

Overview

Under the trademark Strong®, we are a supplier of long-range follow spotlights which are used for both permanent and touring applications. Under the trademark Britelight , we are a supplier of high intensity searchlights and computer-based lighting systems for the motion picture production, television, live entertainment, theme park and architectural industries. We also sell high intensity searchlights under the trademark Sky-Tracker®.

Products

Followspots We have been a developer, manufacturer and distributor of long-range followspots since 1950. Our followspots are primarily marketed under the Strong® trademark and recognized trademarked models such as Super Trouper® and Gladiator®. The Super Trouper® followspot has been the industry standard since 1958. Our long-range followspots are high-intensity general use illumination products designed for both permanent installations, such as indoor arenas, theatres, auditoriums, theme parks, amphitheatres and stadiums, and touring applications. The followspot line consists of six basic models ranging in output from 1000 watts to 4,500 watts. The 1000-watt model, which has a range of 20 to 75 feet, is compact, portable and appropriate for small venues and truss mounting. The 4,500-watt model, which has a range of 300 to 600 feet, is a high-intensity xenon light appropriate for large theatres, arenas and stadiums. Most of our followspots employ a variable focal length lens system which increases the intensity of the light beam as it is narrowed from flood to spot.

In response to a section of the marketplace demanding less expensive, smaller and more user-friendly products, we have introduced certain new spotlights over the last few years. We distribute an Italian manufactured followspot called the Canto. The Canto spotlight product line consists of six basic models ranging in output from 250 watts to 2,000 watts. We also designed a new followspot called the Radiance®. The Radiance® is a mid-range followspot powered by an 850 watt metal halide lamp.

Promotional and Other Lighting Products We are a supplier of high intensity promotional searchlights and lighting systems for the motion picture production, television, live entertainment, theme park and architectural markets. Britelight specialty illumination products have been used in numerous feature films and have also been used at live performances such as Super Bowl half-time shows, the opening and closing ceremonies of the Winter Olympics and are currently illuminating such venues as the Luxor Hotel and Casino and the Stratosphere Hotel and Casino in Las Vegas, Nevada.

Our Sky-Tracker® high intensity promotional searchlights come in single or multiple head configurations, primarily for use at outside venues requiring extremely bright lighting that can compete with other forms of outdoor illumination. These high intensity promotional searchlights have been used at Walt Disney World, Universal Studios, various Olympic games and grand openings.

We purchased a product line during 2007 called the Technobeam® which projects logos, images and textures. This product is used in a variety of entertainment establishments.

Markets

We sell our lighting products through a combination of a small direct sales force and commissioned representatives to arenas, stadiums, theme parks, theatres, auditoriums and equipment rental companies. Our followspot products are marketed using the Strong trademark and are used in over 100 major arenas throughout the world. Our high intensity promotional searchlights are marketed under the Sky-Tracker® trademark.

Competition

The markets for our lighting products are highly competitive. We compete in the lighting industry primarily on the basis of quality, price, branding and product line variety. Certain competitors for our lighting products have significantly greater resources than Ballantyne.

Business Strategy

Our strategy combines the following key elements:

Expand Digital Opportunities. We currently are a party to a master reseller agreement with NEC whereby we distribute their line of Starus DLP Cinema projectors. We intend to gain market share in the digital cinema marketplace by leveraging our current industry leadership and relationships.

We believe we are in a solid position to be a successful participant in the marketplace due to our marketing and sales agreement with NEC, our long term industry relationships and the industry's familiarity with our Company and its large installed base worldwide. However, no assurance can be given that we will in fact be a part of the digital cinema marketplace. If we are unable to take advantage of future digital cinema opportunities or respond to the new competitive pressures, the result could have a material adverse effect on our business, financial condition and operating results. In addition, the current relationship with NEC is a non-exclusive distributorship agreement and as such the gross margin will be lower than the margin we currently experience on our analog projectors. It is unclear at this time if this lower margin can be offset by the expected increased price point and sales volume digital cinema is expected to add when the rollout occurs.

Expand Service Company. We believe that there will be increased demand for service due to the upcoming digital conversion as theatre operators may not have the necessary technical expertise to maintain the more technical nature of digital projectors and accessories. In addition, we feel that there are opportunities to provide service for other items at a theatre complex other than just maintaining the projection equipment. Our STS service subsidiary is forming a core business to service this digital and film marketplace.

Transition from a Manufacturer to a Distributor. We believe that the digital transition taking place within the theatre industry will substantially reduce the demand for the products we manufacture and that we will transition to more of a distribution and service business model. We will also continue to manufacture cinema screens through our MDI subsidiary and also manufacture lighting products for our lighting segment. We are implementing programs at our Omaha facility to reduce costs through a cost and inventory reduction program designed to bring costs and inventory in line with revenues.

Growth Strategy. Our strategy is to pursue complementary strategic acquisitions both within our current operating segments and also in other markets that would fit in our business plans. We expect to make acquisitions in the future. However, we cannot assure that we will be able to locate appropriate acquisitions in the future, that any identified candidates will be acquired or that acquired operations will be effectively integrated or prove profitable. We are also focusing efforts at increasing our product offerings to the theatre industry to focus on being a one-stop shop to fully outfit a theatre auditorium.

Expand International Presence. Sales outside the United States (mainly theatre sales) were 28% and 29% of total revenues in fiscal years 2007 and 2006, respectively. We believe that international sales will continue to account for a significant portion of our theatre sales and that film-related sales will continue for a number of years as the rollout of digital cinema will lag behind the U.S. in certain areas of the world. We are also working with NEC to expand our distribution territories for selling their digital projector line beyond North and South America and Hong Kong.

We are seeking to strengthen and develop our international presence through our international dealer network and our sales force will continue to travel worldwide to market our products. Additionally, we continue to utilize our office in Hong Kong to further penetrate China and surrounding markets. We believe that as a result of these efforts, we are positioned to further expand our brand name recognition and international market share.

Expand Lighting Segment. Our goal is to increase revenues using the remaining product lines within the segment and by increased emphasis on expanding our product offerings by developing and introducing new products and through strategic acquisitions. During 2008, we will begin to distribute additional lighting products including those to complement our Canto spotlight and also certain outdoor architecture lighting products.

Subsidiaries

We have three wholly-owned subsidiaries: Strong Westrex, Inc., Strong Technical Services, Inc. and Strong Digital Systems, Inc.

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

Strong Technical Services, Inc. was formed in 2006 upon the purchase of NCSC to service the film and digital marketplace.

Strong Digital Systems, Inc. was formed in 2007 to acquire the stock of Marcel Desrochers, Inc. which manufactures cinema screens for the theatre exhibition industry.

We also have three non-operational subsidiaries.

Backlog

At December 31, 2007 and 2006, we had backlogs of $7.2 million and $5.7 million, respectively. Such backlogs mainly consisted of orders received with a definite shipping date within twelve months; however, these orders are subject to cancellation. Our products are manufactured and shipped within a few weeks following receipt of orders. The dollar amount of our order backlog is therefore not considered by management to be a leading indicator of our expected sales in any particular fiscal period.

Manufacturing

Our manufacturing operations are conducted in Omaha, Nebraska and Jolliette, Canada. The Omaha facility encompass design, fabrication, assembly and shipping of our various product lines. This central location reduces our transportation costs and delivery times of products throughout the United States. Our manufacturing strategy is to minimize costs through manufacturing efficiencies and reduce fixed costs pertaining to manufacturing film projection equipment.

The manufacturing operations in Jolliette, Canada consist of a 50,000 square-foot facility for the manufacture and shipping of the cinema screen systems business obtained with the acquisition of MDI during 2007. This facility includes a 90-foot-high PVC screen painting facility that houses two paint rigs to accommodate IMAX large format screens. MDI also manufactures screens and screen frames for 2-D and 3-D capabilities. In addition, MDI produces a full line of masking motors.

We currently manufacture the majority of components used in the film and lighting products we sell. We believe that our integrated manufacturing operations has helped maintain the high quality of our products, further aid lead time reductions and our ability to customize products to a customer's specifications. Our flexible workforce allows for the adjusting of the relative mix of products to meet demand. Manufacturing is mainly comprised of machining aluminum in casting and bar stock forms. Fabrication includes the punching, forming and welding of light gauge materials such as steel and aluminum. We also operate powder paint lines at the Omaha facility. Outside contractors are utilized for further specialized processing such as plating, grinding, etc.

Quality Control

We believe that our design standards, quality control procedures and the quality standards for the material and components used in our products have contributed significantly to the reputation of the products for high performance and reliability. Inspection of incoming material and components as well as the testing of all of the Company's products during various stages of assembly are key elements of this program.

Warranty Policy

We generally provide a warranty to end users for substantially all of our products, which normally covers a period of 12 months, but is extended under certain circumstances and for certain products. Under our warranty policy, we will repair or replace defective products or components at our election. Costs of warranty service and product replacements were approximately $0.2, $0.2 and $0.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Research and Development

Our ability to compete successfully depends, in part, upon our continued close work with existing and new customers. We focus research and development efforts on the development of new products based on customer and industry requirements. Research and development costs charged to operations amounted to approximately $0.6, $0.9 and $0.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Patents and Trademarks

We own or otherwise have rights to numerous trademarks and trade names used in conjunction with the sale of our products. We currently own one patent. We believe our success will not be dependent upon patent or trademark protection, but rather upon our scientific and engineering "know-how" and research and production techniques.

Employees

As of March 17, 2008, we had a total of 187 employees. Of these employees, 99 were considered manufacturing, 4 were executive, 40 were considered service related and 44 were considered sales and administrative. We are not a party to any collective bargaining agreement and believe that the relationship with our employees is good.

Environmental Matters

We are subject to various federal, state and local laws and regulations pertaining to environmental protection and the discharge of material into the environment. During 2001, we were informed by a neighboring company of likely contaminated soil on certain parcels of land adjacent to Ballantyne's main manufacturing facility in Omaha, Nebraska. The Environmental Protection Agency and the Nebraska Health and Human Services System subsequently determined that certain parcels of Ballantyne property had various levels of contaminated soil relating to a former pesticide company which previously owned the property and that burned down in the 1960's. During October 2004, Ballantyne agreed to enter into an Administrative Order on Consent ("AOC") to resolve the matter. The AOC holds Ballantyne and two other parties jointly and severally responsible for the cleanup. In this regard, the three parties have also entered into a Site Allocation Agreement by which they will divide past, current and future costs of the EPA, the costs of remediation and the cost of long term maintenance. In connection with the AOC, we have paid our share of the costs. At December 31, 2007, we have provided for management's estimate of any future payments relating to this matter which is not material to the consolidated financial statements.

Stockholder Rights Plan

On May 26, 2000, the Board of Directors of the Company adopted a Stockholder Rights Plan. Under terms of the Rights Plan, which expires June 9, 2010, Ballantyne 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 our common stock at an exercise price of half the market price.

Executive Officers of the Company

John P. Wilmers, age 63, has been our CEO since March 1997 and a Director since 1995.

Christopher Stark, age 47, was appointed VP-Operations in May of 2007.

Kevin S. Herrmann, age 42, was appointed CFO, Corporate Secretary and Treasurer in November 2006. Prior to the appointment, Mr. Herrmann had been our Corporate Controller since 1997.

Ray F. Boegner, age 58, has been Senior Vice President since 1997. Mr. Boegner joined us in 1985 and has acted in various sales roles.

Information available on Ballantyne Website

We make available free of charge on our website (www.ballantyne-omaha.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 159(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.

Corporate Governance Documents

The Board of Directors has adopted several corporate governance policies to address significant corporate governance issues. The Board of Directors has adopted the following governance documents:

- Code of Ethics
- Audit Committee Charter
- Nominating Committee Charter
- Procedures for bringing concerns or complaints to the attention of the Audit Committee

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

The Secretary
Ballantyne of Omaha, Inc.
4350 McKinley Street
Omaha, NE 68112

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 may be unsuccessful in adapting to new or advancing technologies, such as digital cinema.

The transition to digital cinema began to show measurable progress in 2007 after several years of research and development. We believe we are in a position to participate in the digital cinema marketplace either through our relationship with NEC or through other relationships with other digital cinema providers. However, we cannot assure that we will successfully or competitively advance this technology as might be required. In addition, the current relationship with NEC is a non-exclusive distributorship agreement and as such the gross margin will be lower than the margin we currently experience on our analog projectors. It is unclear at this time if this lower margin can be offset by the expected increased price point and sales volume digital cinema is expected to add when the rollout occurs. Our agreement with NEC is not perpetual and could be terminated with 90 day advance written notice. While we currently have no debt, we may have to leverage the Company to fully participate in digital cinema. There is no assurance that we will be able to access sufficient capital given the recent tightening of the global credit market.

If we are unable to maintain our relationship with NEC, or otherwise take advantage of future digital cinema opportunities or respond to the new competitive pressures, the result could have a material adverse impact on our business, financial condition and operating results.

Our financial results and growth depend largely on the health of the theatre exhibition industry.

Approximately 91% of our revenues resulted from sales to the theatre exhibition industry. From fiscal years 2000 to 2002, this industry experienced an unprecedented three-year decline. Several exhibition companies filed for federal bankruptcy protection. This resulted in our revenues declining from $83.4 million in fiscal 1999 to $33.8 million in fiscal 2002. While the health of the theatre exhibition industry has improved significantly, there are still risks in the industry which result in continued exposure to Ballantyne. Growth in the number of new motion picture screens may be adversely affected by the economy or other factors. These factors may also have an adverse effect on our customer base. A lack of motion picture screen growth would have a material adverse effect on our business, financial condition and results of operations.

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

Our top ten customers accounted for approximately 43% of 2007 consolidated net revenues. While we believe our relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from these significant customers could have a material adverse effect on our business, financial condition and 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 theatre sales) continue to be significant, accounting for 28% and 29% of consolidated sales in fiscal 2007 and 2006, respectively. We are seeking to expand our share of foreign sales, which we expect will continue to account for a significant portion of our revenues. 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. Historically, the majority of our foreign sales have been 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. In addition, there can be no assurance that our international customers will continue to accept orders denominated in U.S. dollars. To the extent that orders are denominated in foreign currencies, our reported sales and earnings are more directly subject to foreign exchange fluctuations. 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 cannot assure that these factors will not adversely affect our foreign sales in the future.

We are also exposed to foreign currency fluctuations between the Canadian and U.S. dollar due to the purchase of MDI as a majority of their sales are denominated in the U.S. dollar while their expenses are denominated in Canadian currency.

The markets for our products are highly competitive and if we fail to invest in product development and productivity improvements, our business could be materially adversely impacted.

The domestic and international markets for our product lines are highly competitive. Certain of our competitors for our equipment have significantly greater resources. In the theatre segment, we are experiencing new competition in the film motion picture industry as well as from the development of new technology for alternative means of motion picture presentation in the form of digital cinema. We cannot assure that our equipment (whether film or digital) will not become obsolete as technology advances. If we lose market share due to these issues, we may be unable to lower our cost structure quickly enough to offset the lost revenue. To counter these risks, we have initiated a cost reduction program, continue to streamline our manufacturing processes and have a strategy to respond to the digital marketplace. However, we cannot assure that this strategy will succeed or that it will be able to obtain adequate financing to take advantage of potential opportunities.

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.

Growth through acquisition is a part of our business plan and we may not be able to successfully identify, finance or integrate acquisitions.

As discussed in further detail in the "Business Strategy" portion of Item 1, our strategy is to pursue complementary strategic acquisitions in the theatre and in other markets that would fit in our business plans. We expect to make acquisitions in the future. However, we cannot assure that we will be able to locate appropriate acquisition candidates, that any identified candidates will be acquired or that acquired operations will be effectively integrated or prove profitable. Additionally, our credit facility with First National Bank of Omaha currently prohibits us from making acquisitions over $7 million without the bank's consent.

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

NEC is our sole supplier for the Digital equipment we distribute to the theatre industry. The industry transition to digital cinema is currently in the initial stages and during this time, there could be pricing pressures placed upon us as we market the NEC line of digital equipment. While our partnership with NEC to-date has been to strategically price the NEC projectors to the market-place, there are no assurances that if future pricing pressures would arise that NEC will drop their prices to allow us to remain competitive. We are also dependent on NEC to supply us digital products in a timely manner and while we have not experienced difficulty in obtaining these products in the past, there is no assurance that shortages will not arise in the future.

We utilize a single contract manufacturer for each of our intermittent movement components, lenses and xenon lamps on the film side. The loss of any one or more of the contract manufacturers could have a short-term adverse effect on the Company until alternative manufacturing arrangements are secured. We are not dependent upon any one contract manufacturer or supplier for the balance of our raw materials and components. We believe that there are adequate alternative sources of such raw materials and components of sufficient quantity and quality, but cannot assure that this will continue in the future.

In addition, volatility in the price for certain raw materials and components such as steel, fuel and lenses could adversely affect our financial results. In particular, the strengthening of the Euro has resulted in increased costs for lens purchases from our German supplier. Based on forecasted purchases during 2008, an average 10% devaluation of the dollar compared to the Euro would cost us approximately $0.1 million.

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 in general, with fluctuations often being unrelated to operating performance.

Pending litigation could have a material adverse effect on our financial position, cash flows and results of operations.

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. We believe that we have strong defenses and intend 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. This case is scheduled for trial to commence in August 2008. It is possible that an adverse resolution of this case could have a material adverse effect on our financial position.

We are a party from time to time to various other legal actions which are ordinary routine litigation matters incidental to the Company's business, such as products liability.

Certain anti-takeover provisions in Ballantyne's governing documents could make it more difficult for a third party to acquire Ballantyne.

The Board of Directors has adopted a Stockholder Rights Plan. Under the terms of the Rights Plan, which expires June 9, 2010, we 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), acquires 15% or more of our common stock or announces a tender offer for 15% or more of our common stock. Under certain circumstances, the Rights Plan allows stockholders, other than the acquiring person or group, to purchase our common stock at a price that is one-half the market price.

Our Certificate of Incorporation also provides for, among other things, the issuance of 1,000,000 shares of preferred stock, par value $0.01 per share. The Board of Directors is authorized, without stockholder approval, to cause Ballantyne to issue preferred stock in one or more series and to fix the voting powers and the designations, preferences and relative, participating, optional or other rights and restrictions of the preferred stock. Accordingly, we may issue a series of preferred stock in the future that will have preference over the common stock with respect to the payment of dividends and upon our liquidation, dissolution or winding up or have voting or conversion rights that could adversely affect the voting power and ownership percentages of the holders of common stock. Our Certificate of Incorporation also provides for the affirmative vote of at least $66^{2}/_{3}$% of all outstanding shares of capital stock entitled to vote generally in the election of directors, voting as a single class, to change certain provisions of the Certificate of Incorporation and Bylaws. Our Bylaws contain certain advance notice requirements relating to stockholder proposals and stockholder nomination of directors. These provisions may have the effect of making it more difficult or discouraging transactions that could give stockholders of Ballantyne the opportunity to realize a premium over the then prevailing market price for their shares of common stock.

Shares eligible for future sale could have a possible adverse effect on the market price.

Future sales of common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of the common stock or our ability to raise additional capital through sales of its equity securities.

As of December 31, 2007, we had: i) 13,858,438 shares owned by stockholders and ii) 1,923,186 shares of common stock reserved for issuance under stock plans. Of the shares outstanding, subject to outstanding options and reserved for issuance under the employee stock purchase plan, 428,000 shares are immediately eligible for resale in the public market without restriction.

We are unable to predict the effect that the sales of these shares may have on the prevailing market price of the common stock.

Subsequent to year-end certain of our short-term investments are experiencing liquidity issues.

We ended fiscal year 2007 with total cash, cash equivalents and short-term investments of $17.2 million including $13.0 million of investments in certain auction rate securities ("ARS"). Subsequent to year-end, the market for our investments in auction-rate securities began experiencing a liquidity issue when the securities came up for auction due to an imbalance of buyers of 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 our auction rate securities held. However, all the securities held continue to be AAA rated and fully collateralized by the fund itself at a minimum 200% net asset to fund ratio. Therefore, we have no reason to believe that any of the issuers are presently at risk or that the credit quality of the assets backing these investments are impacted by the reduced liquidity of these investments.

We are currently evaluating the market for these securities to determine if impairment of the carrying value of the securities has occurred due to the loss of liquidity. Any decline in the fair value of the securities, at this time, as a result of a potential liquidity discount is considered temporary. In the future, if indicators exist that lead to an other than temporary impairment, we would recognize an impairment loss in the consolidated statement of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters and main manufacturing facility is located at 4350 McKinley Street, Omaha, Nebraska, where we own a building consisting of approximately 166,000 square feet on approximately 12.0 acres. The premises are used for offices and for the manufacture, assembly and distribution of our products. We also lease a sales and service facility in Hong Kong and a small sales office in Miami, Florida.

We lease a 50,000 square-foot manufacturing plant in Joliette, Canada used for offices, manufacturing, assembly and distribution of the cinema screens for MDI.

Item 3. Legal Proceedings

We are 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. We believe that we have strong defenses and intend 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. This case is scheduled for trial to commence in August 2008. It is possible that an adverse resolution of this case could have a material adverse effect on our financial position.

During March 2006, we settled an asbestos case entitled *Bercu v. BICC Cables Corporation, et al.*, originally filed June 27, 2003 in the Supreme Court of the State of New York. The settlement amount was not material to our results of operations, financial position or cash flows.

We are also a party to various other legal actions which are ordinary routine litigation matters incidental to our business, such as products liability. Based on currently available information, management believes that the ultimate outcome of these matters individually and in the aggregate, will not have a material adverse effect on our results of operations, financial position or cash flow.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of fiscal 2007, no issues were submitted to a vote of stockholders.

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 American Stock Exchange under the symbol "BTN". The following table sets forth the high and low per share sale price or the range of high and low bid information for the common stock as reported by the American Stock Exchange.

		High	Low
2007	First Quarter	$ 5.62	$ 4.82
	Second Quarter	6.67	4.84
	Third Quarter	6.80	5.34
	Fourth Quarter	6.45	5.50
2006	First Quarter	$ 4.94	$ 3.50
	Second Quarter	4.49	3.65
	Third Quarter	5.05	3.75
	Fourth Quarter	5.30	3.61
2005	First Quarter	$ 5.93	$ 4.06
	Second Quarter	4.85	3.70
	Third Quarter	4.94	3.69
	Fourth Quarter	5.16	4.42

The last reported per share sale price for the common stock on March 28, 2008 was $4.46. We had 13,858,438 shares of common stock outstanding on March 17, 2008, with approximately 189 holders of record and an estimated 2,200 owners held in the name of nominees.

Equity Compensation Plan Information

The following table sets forth information regarding our Stock Option and Purchase Plan Agreements as of December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	443,750	$ 2.33	626,496(1)
Equity compensation plans not approved by security holders			852,940(2)
Total	443,750	$ 2.33	1,479,436

(1) Includes 123,746 securities for the 2005 Stock Purchase Plan, 252,750 securities for the 2005 Outside Directors Stock Option Plan and 250,000 securities for the 2005 Restricted Stock Plan.

(2) Amounts pertain to the 2001 Non-Employee Director's Stock Option Plan. See note 17 to the consolidated financial statements filed under Part II, Item 8 of this report for a description of this plan.

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, and our credit facility contains certain prohibitions on the payment of cash dividends. 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.

Item 6. Selected Financial Data (1)

		Years Ended December 31,				
		2007	**2006**	**2005**	**2004**	**2003**
Statement of operations data						
Net revenue	$	51,486	49,732	53,857	49,145	37,433
Gross profit	$	9,456	10,826	14,905	13,515	8,616
Net income	$	228	1,568	4,309	5,073	579
Net income per share						
Basic	$	0.02	0.12	0.33	0.40	0.05
Diluted	$	0.02	0.11	0.31	0.37	0.04
Balance sheet data						
Working capital	$	32,390	34,974	32,627	26,900	20,806
Total assets	$	54,140	49,908	46,936	42,171	37,235
Total debt	$		15	43	68	93
Stockholders' equity	$	43,042	42,389	39,998	34,523	29,089

(1) All amounts in thousands (000's) except per share data

Item 7. 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;