

BALLANTYNE OF OMAHA INC
Form 10-Q/A
November 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 1-13906

BALLANTYNE OF OMAHA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

47-0587703
(IRS Employer
Identification Number)

4350 McKinley Street, Omaha, Nebraska
(Address of Principal Executive Offices)

68112
(Zip Code)

(402) 453-4444

(Registrant's telephone number, including area code)

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

(former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 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 check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class	Outstanding as of October 28, 2005
Common Stock, \$.01, par value	13,379,208 shares

Explanatory Note

The cover page to this Form 10-Q is amended to change the outstanding shares of Common Stock to 13,379,208 shares.

TABLE OF CONTENTS

PART I. Financial Information

<u>Item 1.</u>	<u>Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

PART II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>Signatures</u>

Part I. Financial Information

Item 1. Financial Statements

Ballantyne of Omaha, Inc. and Subsidiaries

Consolidated Balance Sheets

September 30, 2005 and December 31, 2004

	September 30, 2005		December 31, 2004	
	(Unaudited)			
Assets				
Current assets:				
Cash and cash equivalents	\$	17,411,830	\$	14,031,984
Accounts receivable (less allowance for doubtful accounts of \$436,818 in 2005 and \$485,829 in 2004)		9,543,681		6,159,764
Inventories, net		11,628,649		12,173,966
Deferred income taxes		1,432,261		1,320,591
Other current assets		360,171		293,676
Total current assets		40,376,592		33,979,981
Property, plant and equipment, net		5,561,461		5,676,595
Goodwill, net		2,467,219		2,467,219
Intangible assets, net				23,488
Other assets		19,257		23,757
Total assets	\$	48,424,529	\$	42,171,040
Liabilities and Stockholders Equity				
Current liabilities:				
Current portion of long-term debt	\$	27,292	\$	25,935
Accounts payable		3,382,651		2,600,477
Warranty reserves		693,825		668,268
Accrued group health insurance claims		179,019		234,598
Customer deposits		980,276		913,267
Accrued bonus		1,186,311		911,520
Other accrued expenses		1,667,792		1,480,237
Income tax payable		750,868		245,986
Total current liabilities		8,868,034		7,080,288
Long-term debt, excluding current installments		21,727		42,370
Deferred income taxes		340,432		256,008
Other accrued expenses, net of current portion		314,333		268,936

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

Total liabilities		9,544,526		7,647,602
Stockholders' equity:				
Preferred stock, par value \$.01 per share; Authorized 1,000,000 shares, none outstanding				
Common stock, par value \$.01 per share; Authorized 25,000,000 shares; issued 15,477,013 shares in 2005 and 15,090,863 shares in 2004		154,770		150,908
Additional paid-in capital		33,370,371		32,249,888
Retained earnings		20,670,316		17,438,096
		54,195,457		49,838,892
Less 2,097,805 common shares in treasury, at cost		(15,315,454)		(15,315,454)
Total stockholders' equity		38,880,003		34,523,438
Total liabilities and stockholders' equity	\$	48,424,529	\$	42,171,040

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries

Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2005 and 2004

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net revenues	\$ 14,260,237	\$ 11,675,514	\$ 39,813,700	\$ 34,630,893
Cost of revenues	10,203,994	8,371,203	28,675,874	24,931,685
Gross profit	4,056,243	3,304,311	11,137,826	9,699,208
Selling and administrative expenses:				
Selling	699,485	759,395	2,055,394	2,130,827
Administrative	1,481,269	1,095,593	4,098,805	3,439,527
Total selling and administrative expenses	2,180,754	1,854,988	6,154,199	5,570,354
Income from operations	1,875,489	1,449,323	4,983,627	4,128,854
Interest income	105,440	38,284	272,974	76,248
Interest expense	(8,433)	(8,174)	(25,913)	(27,531)
Other income (expense)	18,847	(28,888)	(20,059)	(49,170)
Income before income taxes	1,991,343	1,450,545	5,210,629	4,128,401
Income tax benefit (expense)	(762,298)	693,594	(1,978,409)	(283,952)
Net income	\$ 1,229,045	\$ 2,144,139	\$ 3,232,220	\$ 3,844,449
Basic net income per share	\$ 0.09	\$ 0.17	\$ 0.24	\$ 0.30
Diluted net income per share	\$ 0.09	\$ 0.16	\$ 0.23	\$ 0.28
Weighted average shares outstanding:				
Basic	13,355,955	12,833,211	13,209,580	12,789,408
Diluted	13,955,817	13,626,594	13,903,081	13,572,924

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2005 and 2004

(Unaudited)

	2005		2004	
Cash flows from operating activities:				
Net income	\$	3,232,220	\$	3,844,449
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts		(9,301)		19,095
Depreciation of plant and equipment		834,850		795,230
Other amortization		23,488		30,519
Gain on disposal of fixed assets		(8,704)		(110,030)
Deferred income taxes		(27,246)		(1,243,676)
Changes in assets and liabilities:				
Accounts receivable		(3,374,616)		(939,830)
Inventories		545,317		(2,333,437)
Income taxes		796,320		128,542
Other current assets		(66,495)		434,702
Other assets		4,500		1,025
Accounts payable		782,174		19,915
Warranty reserves		25,557		24,371
Accrued group health insurance claims		(55,579)		(125,915)
Customer deposits		67,009		2,443,512
Accrued bonus		274,791		728,156
Other accrued expenses		232,952		(165,455)
Net cash provided by operating activities		3,277,237		3,551,173
Cash flows from investing activities:				
Capital expenditures		(730,346)		(841,352)
Proceeds from sale of assets		19,334		269,079
Net cash used in investing activities		(711,012)		(572,273)
Cash flows from financing activities:				
Payments on long-term debt		(19,286)		(18,038)
Proceeds from exercise of stock options		832,907		68,730
Net cash provided by financing activities		813,621		50,692
Net increase in cash and cash equivalents		3,379,846		3,029,592
Cash and cash equivalents at beginning of period		14,031,984		8,761,568

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

Cash and cash equivalents at end of period	\$	17,411,830	\$	11,791,160
--------------------------------------------	----	------------	----	------------

See accompanying notes to consolidated financial statements.

Ballantyne of Omaha, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Three and Nine Months Ended September 30, 2005 and 2004

(Unaudited)

1. Company

Ballantyne of Omaha, Inc., a Delaware corporation (Ballantyne or the Company), and its wholly-owned subsidiaries Strong Westrex, Inc. and Design & Manufacturing, Inc., design, develop, manufacture and distribute commercial motion picture equipment and lighting systems and distribute restaurant products. The Company s products are sold to movie exhibition companies, sports arenas, auditoriums, amusement parks, special venues and the food service industry. Refer to the Business Segment Section (Note 11) for further information.

2. Summary of Significant Accounting Policies

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

a. **Basis of Presentation and Principles of Consolidation**

The consolidated financial statements included herein are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company s annual Form 10-K filing. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-K for fiscal 2004.

In the opinion of management, the unaudited consolidated financial statements of the Company reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

b. **Use of Estimates**

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Allowance for Doubtful Accounts

Accounts receivable are presented net of an allowance for doubtful accounts of \$436,818 and \$485,829 at September 30, 2005 and December 31, 2004, respectively. This allowance is developed based on several factors including overall customer credit quality, historical write-off experience and a specific analysis that projects the ultimate collectibility of the account. As such, these factors may change over time causing the reserve level to adjust accordingly.

d. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and include appropriate elements of material, labor and manufacturing overhead.

e. Goodwill and Intangible Assets

The Company capitalizes and includes in intangible assets the excess of cost over the fair value of net identifiable assets of operations acquired through purchase transactions (goodwill) in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires goodwill no longer be amortized to earnings, but instead be reviewed at least annually for impairment. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's estimated fair value. All recorded goodwill is attributed to the Company's theatre segment.

Other intangible assets were stated at cost and amortized on a straight-line basis over the expected periods to be benefited (25 to 36 months).

f. **Property, Plant and Equipment**

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

g. **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

h. **Revenue Recognition**

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

The Company enters into transactions that represent multiple element arrangements, which may include a combination of services and asset sales. Under EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, multiple element arrangements are assessed to determine whether they can be separated into more than one unit of accounting. A multiple element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

The delivered item(s) has value on a standalone basis;

There is objective and reliable evidence of the fair value of the undelivered item(s);

If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company.

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

i. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. Cash and cash equivalents, accounts receivable, debt, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values.

j. Cash and Cash Equivalents

All highly liquid financial instruments with maturities of three months or less from date of purchase are classified as cash equivalents in the consolidated balance sheets and statements of cash flows.

k. Income Per Common Share

The Company computes and presents net income per share in accordance with SFAS No. 128, *Earnings Per Share*. Net income per share basic has been computed on the basis of the weighted average number of shares of common stock outstanding. Net income per share diluted has been computed on the basis of the weighted average number of shares of common stock outstanding after giving effect to potential common shares from dilutive stock options.

The following table provides a reconciliation between basic and diluted income per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic income per share:				
Income applicable to common stock	\$ 1,229,045	\$ 2,144,139	\$ 3,232,220	\$ 3,844,449
Weighted average common shares outstanding	13,355,955	12,833,211	13,209,580	12,789,408
Basic income per share	\$ 0.09	\$ 0.17	\$ 0.24	\$ 0.30
Diluted income per share:				
Income applicable to common stock	\$ 1,229,045	\$ 2,144,139	\$ 3,232,220	\$ 3,844,449
Weighted average common shares outstanding	13,355,955	12,833,211	13,209,580	12,789,408
Assuming conversion of options outstanding	599,862	793,383	693,501	783,516
Weighted average common shares outstanding, as adjusted	13,955,817	13,626,594	13,903,081	13,572,924
Diluted income per share	\$ 0.09	\$ 0.16	\$ 0.23	\$ 0.28

At September 30, 2005, options to purchase 268,800 shares of common stock at a weighted average price of \$8.43 per share were outstanding, but were not included in the computation of net income per share diluted for the three and nine months ended September 30, 2005 as the options exercise price was greater than the average market price of the common shares. These options expire between January 2007 and May 2010. At September 30, 2004, options to purchase 237,925 shares of common stock at a weighted average price of \$8.61 per share were outstanding, but were not included in the computation of net income per share diluted for the three and nine months ended September 30, 2004 as the options exercise price was greater than the average market price of the common shares.

l. Stock-Based Compensation

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation*, and amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company elected to account for its stock-based compensation plans under the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Consequently, when both the number of shares and the exercise price is known at the grant date, no compensation expense is recognized for stock options issued to employees and directors unless the exercise price of the option is less than the quoted value of the Company's common stock at the date of grant. Had compensation cost for the Company's stock compensation plans been determined consistent with SFAS No. 123 as amended by SFAS No. 148, the Company's net income and basic and diluted income per share would have changed to the pro forma amounts indicated below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income:				
As reported	\$ 1,229,045	\$ 2,144,139	\$ 3,232,220	\$ 3,844,449
Stock-based compensation income (expense), determined under fair value based method, net of tax	(10,236)	3,741	(47,237)	(34,952)
Proforma net income	\$ 1,218,809	\$ 2,147,880	\$ 3,184,983	\$ 3,809,497
Income per share - basic				
As reported	\$ 0.09	\$ 0.17	\$ 0.24	\$ 0.30
Proforma net income per share	\$ 0.09	\$ 0.17	\$ 0.24	\$ 0.30
Income per share - diluted				
As reported	\$ 0.09	\$ 0.16	\$ 0.23	\$ 0.28
Proforma net income per share	\$ 0.09	\$ 0.16	\$ 0.23	\$ 0.28

The average fair value of each option granted in 2005 and 2004 was \$1.86 and \$1.69, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes Option-Pricing model made with the following weighted average assumptions:

	2005	2004
Risk-free interest rate	3.82%	4.01%
Dividend yield	0%	0%
Expected volatility	37.6%	37.5%
Expected life in years	5	10

m. Impairment of Long-Lived Assets

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

The Company's most significant long-lived assets subject to these periodic assessments of recoverability are property, plant and equipment, which have a net book value of \$5.6 million at September 30, 2005. Because the recoverability of property, plant and equipment is based on estimates of future undiscounted cash flows, these estimates may vary due to a number of factors, some of which may be outside of management's control. To the extent that the Company is unable to achieve management's forecasts of future income, it may become necessary to record impairment losses for any excess of the net book value of property, plant and equipment over its fair value.

n. Warranty Reserves

The Company generally grants a warranty to its customers for a one-year period following the sale of all new equipment, and on selected repaired equipment for a one-year period following the repair. The warranty period is extended under certain circumstances and for certain products. The Company accrues for these costs at the time of sale or repair, when events dictate that additional accruals are necessary.

The following table summarizes warranty activity for the periods indicated below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005		2004		2005		2004	
Balance at beginning of period	\$	596,043	\$	697,338	\$	668,268	\$	732,033
Charged to expense		121,694		268,654		207,421		414,824
Amounts written off, net of recoveries		(23,912)		(209,588)		(181,864)		(390,453)
Balance at end of period	\$	693,825	\$	756,404	\$	693,825	\$	756,404

o. Comprehensive Income

The Company's comprehensive income consists solely of net income. All other items were not material to the consolidated financial statements.

p. Litigation

Ballantyne is a defendant in an asbestos liability case seeking monetary damages, entitled *Bercu v. BICC Cables Corporation, et al.*, filed June 27, 2003 in the Supreme Court of the State of New York. There are numerous defendants including Ballantyne. At this time, the case has not progressed to a stage where either the likely outcome or the amount of damages, if any, for which Ballantyne may be liable can be determined. An adverse resolution of this matter could have a material effect on the financial position of Ballantyne.

q. Environmental

The Company is subject to various federal, state and local laws and regulations pertaining to environmental protection and the discharge of material into the environment. During 2001, Ballantyne was 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

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

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, the Company has paid its share of the costs. At September 30, 2005, the Company has provided for management's estimate of any future exposure relating to this matter which is not material to the consolidated financial statements.

r. Concentrations

The Company's top ten customers accounted for approximately 51% of consolidated net revenues for the nine months ended September 30, 2005. These customers were primarily from the theatre segment. Trade accounts receivable from these customers represented approximately 67% of net consolidated accounts receivables at September 30, 2005. In addition, receivables from Vari Internacional, AMC Theatres, Regal Entertainment Group and National Cinema Supply each represented over 10% of net consolidated accounts receivables at September 30, 2005.

s. Recently Issued Accounting Pronouncements

In May 2004, the FASB issued Staff Position No. 106-2 (FSP No. 106-2), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003* (the Act). FSP No. 106-2 provides guidance on accounting for the effects of a subsidy available under the Act to companies that sponsor retiree medical programs with drug benefits that are actuarially equivalent to those available under Medicare. In addition to the direct benefit to a company from qualifying for and receiving the subsidy, the effects would include expected changes in retiree participation rates and changes in estimated health care costs that result from the Act. FSP No. 106-2 was effective for Ballantyne during the interim period ending September 30, 2004 and did not have a material impact on the consolidated financial statements of the Company.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*. This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires companies to recognize in the income statement the grant date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. The Statement was effective for interim periods beginning after June 15, 2005. On April 14, 2005, the SEC announced the adoption of a new rule amending the compliance dates for this Statement. The Statement will now be effective for the Company's first quarter beginning January 1, 2006. The Company is currently determining the impact of the Statement on its financial position, results of operations and cash flows.

3. Intangible Assets

Intangible assets consist of the following:

	At September 30, 2005		
	Cost	Accumulated Amortization	Net Book Value
Nonamortizable intangible assets:			
Goodwill	\$ 3,720,743	\$ (1,253,524)	\$ 2,467,219
Amortizable intangible assets:			
Customer relationships	113,913	(113,913)	
Trademarks	1,000	(1,000)	
Non-competition agreement	6,882	(6,882)	
	\$ 3,842,538	\$ (1,375,319)	\$ 2,467,219
	At December 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
Nonamortizable intangible assets:			
Goodwill	\$ 3,720,743	\$ (1,253,524)	\$ 2,467,219
Amortizable intangible assets:			
Customer relationships	113,913	(91,763)	22,150
Trademarks	1,000	(1,000)	
Non-competition agreement	6,882	(5,544)	1,338
	\$ 3,842,538	\$ (1,351,831)	\$ 2,490,707

Amortization expense relating to amortizable intangible assets for the three and nine months ended September 30, 2005 amounted to \$3,354 and \$23,488, respectively, as compared to \$10,146 and \$30,519 for the three and nine months ended September 30, 2004, respectively. No further amortization will be recorded as the assets were fully amortized at September 30, 2005.

4. Inventories

Inventories consist of the following:

	September 30, 2005	December 31, 2004
Raw materials and components	\$ 7,906,417	\$ 8,995,922
Work in process	1,671,532	1,276,297
Finished goods	2,050,700	1,901,747
	\$ 11,628,649	\$ 12,173,966

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

The inventory balances are net of reserves for slow moving or obsolete inventory of approximately \$1,416,000 and \$1,086,000 as of September 30, 2005 and December 31, 2004, respectively.

5. Property, Plant and Equipment

Property, plant and equipment include the following:

	September 30, 2005	December 31, 2004
Land	\$ 343,500	\$ 343,500
Buildings and improvements	4,694,226	4,687,859
Machinery and equipment	9,431,721	9,125,868
Office furniture and fixtures	2,176,378	1,932,367
Construction in process	63,798	28,922
	16,709,623	16,118,516
Less accumulated depreciation	(11,148,162)	(10,441,921)
Net property, plant and equipment	\$ 5,561,461	\$ 5,676,595

Depreciation expense amounted to \$271,379 and \$834,850 for the three and nine months ended September 30, 2005, respectively, as compared to \$251,691 and \$795,230 for the three and nine months ended September 30, 2004, respectively.

6. Debt

The Company is a party to a revolving credit facility with First National Bank of Omaha expiring on August 28, 2006. The credit facility provides for borrowings up to the lesser of \$4.0 million or amounts determined by an asset based lending formula, as defined. Borrowings available under the credit facility amount to \$4.0 million at September 30, 2005. No amounts are currently outstanding. The Company pays interest on outstanding amounts equal to the Prime Rate plus 0.25% (7.0% at September 30, 2005) and pays a fee of 0.125% on the unused portion. The credit facility contains certain restrictive covenants primarily related to maintaining certain earnings, as defined, and restrictions on acquisitions and dividends. All of the Company's personal property and stock in its subsidiaries secure this credit facility.

Long-term debt at September 30, 2005 consists of installment payments relating to the purchase of certain intangible assets. Future maturities of long-term debt for the remainder of fiscal 2005 and for each of the remaining years are as follows: 2005 - \$6,648; 2006 - \$27,762; and 2007 - \$14,609.

7. Supplemental Cash Flow Information

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

Nine Months Ended September 30,

	2005	2004
Interest paid	\$ 7,325	\$ 26,253
Income taxes paid	\$ 1,209,335	\$ 1,400,101
Income tax benefit related to stock option plans	\$ 291,438	\$ 23,707

8. Stockholder Rights Plan

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

9. Self-Insurance

The Company is self-insured up to certain stop loss limits for group health insurance. Accruals for claims incurred but not paid as of September 30, 2005 and December 31, 2004 are included in accrued group health insurance claims in the accompanying consolidated balance sheets. The Company's policy is to accrue the employee health benefit accruals based on historical information along with certain assumptions about future events.

10. Postretirement Health Care

Ballantyne sponsors a postretirement health care plan (the Plan) for certain current and former executives and their spouses. Ballantyne's policy is to fund the cost of the Plan as expenses are incurred. The costs of the postretirement benefits are accrued over the employees' service lives.

In accordance with SFAS No. 132, *Disclosures About Pensions and Other Postretirement Benefits*, the following table sets forth the components of the net period benefit cost for the three and nine months ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Service cost	\$ 3,051	\$ 2,485	\$ 9,153	\$ 7,455
Interest cost	6,196	5,559	18,588	16,677
Amortization of prior-service cost	6,718		20,154	
Amortization of loss	934	6,718	2,802	20,154
Net periodic benefit cost	\$ 16,899	\$ 14,762	\$ 50,697	\$ 44,286

The Company expects to pay \$5,962 under the plan in 2005. As of September 30, 2005, benefits of \$2,415 have been paid.

In December 2003, the United States enacted into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act established a prescription drug benefit under Medicare, known as Medicare Part D and a federal subsidy to sponsors of retired healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of the Act did not have a material impact on the consolidated financial statements of the Company.

11. Business Segment Information

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

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

As of September 30, 2005, the Company's operations are conducted principally through three business segments: Theatre, Lighting and Restaurant. Theatre operations include the design, manufacture, assembly and sale of motion picture projectors, xenon lamphouses and power supplies, sound systems, film handling equipment and the sale of xenon lamps and lenses. The lighting segment operations include the design, manufacture, assembly and sale of follow spotlights, stationary searchlights and computer operated lighting systems for the motion picture production, television, live entertainment, theme parks and architectural industries. The restaurant segment primarily includes the manufacture and sale of replacement parts and the sale of seasonings and marinades. The Company has phased out its restaurant equipment product line. The Company allocates resources to business segments and evaluates the performance of these segments based upon reported segment gross profit. However, certain key operations of a particular segment are tracked on the basis of operating profit. There are no significant intersegment sales. All intersegment transfers are recorded at historical cost.

Summary by Business Segments

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2005		2004		2005		2004	
Net revenue								
Theatre	\$	13,228,282	\$	10,414,218	\$	36,806,106	\$	31,503,673
Lighting		822,404		988,845		2,359,449		2,174,434
Restaurant		209,551		272,451		648,145		952,786
Total net revenue	\$	14,260,237	\$	11,675,514	\$	39,813,700	\$	34,630,893
Gross profit								
Theatre	\$	3,695,022	\$	2,942,410	\$	10,082,395	\$	8,875,006
Lighting		270,161		275,731		760,531		583,344
Restaurant		91,060		86,170		294,900		240,858
Total gross profit		4,056,243		3,304,311		11,137,826		9,699,208
Selling and administrative expenses		(2,180,754)		(1,854,988)		(6,154,199)		(5,570,354)
Operating income		1,875,489		1,449,323		4,983,627		4,128,854
Other income (expense)		18,847		(28,888)		(20,059)		(49,170)
Net interest income		97,007		30,110		247,061		48,717
Income before income taxes	\$	1,991,343	\$	1,450,545	\$	5,210,629	\$	4,128,401
Expenditures on capital equipment								
Theatre	\$	184,614	\$	311,158	\$	695,744	\$	781,827
Lighting		7,615		11,106		34,602		59,525
Restaurant								
Total	\$	192,229	\$	322,264	\$	730,346	\$	841,352
Depreciation and amortization								
Theatre	\$	270,088	\$	249,680	\$	821,750	\$	773,752
Lighting		4,645		12,157		36,588		51,997
Restaurant								
Total	\$	274,733	\$	261,837	\$	858,338	\$	825,749
Gain (loss) on disposal of long-lived assets								
Theatre	\$	(1,992)	\$	102,628	\$	8,008	\$	103,428
Lighting		696		6,602		696		6,602
Restaurant								
Total	\$	(1,296)	\$	109,230	\$	8,704	\$	110,030

	At September 30,		At December 31,	
	2005		2004	
Identifiable assets				
Theatre	\$	44,655,208	\$	39,129,877
Lighting		3,137,454		2,764,847
Restaurant		631,867		276,316
Total	\$	48,424,529	\$	42,171,040

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including but not limited to: quarterly fluctuations in results; customer demand for the Company's 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 the Company's future business; credit concerns in the theatre exhibition industry; and other risks detailed from time to time in the Company's other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations. The risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does communicate with securities analysts from time to time, it has a policy against issuing or confirming financial forecast or projections issued by others. Accordingly, investors should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Therefore, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Overview

The Company designs, develops, manufactures and distributes commercial motion picture equipment and lighting systems and also distributes restaurant products. The Company business was founded in 1932. The Company has three reportable core operating segments: theatre, lighting and restaurant. Approximately 92% of fiscal year 2005 sales have resulted so far from theatre products, 6% from lighting products and 2% from restaurant products.

Critical Accounting Policies and Estimates

General

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

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

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

The Company's accounting policies are discussed in note 2 to the consolidated financial statements in this report. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition

The Company recognizes revenue from product sales upon shipment to the customer when collectibility is reasonably assured. Revenue related to services is recognized as earned over the terms of the contracts or delivery of the service to the customer. The Company enters into transactions that represent multiple element arrangements, which may include a combination of services and asset sales. Under EITF 00-21, *Revenue Arrangements with Multiple Deliverables*, multiple element arrangements are assessed to determine whether they can be separated into more than one unit of accounting. A multiple element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

The delivered item(s) has value on a standalone basis;

There is objective and reliable evidence of the fair value of the undelivered item(s);

If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company.

If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last undelivered element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered item(s) but no such evidence for the delivered item(s). In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered item(s) equals the total arrangement consideration less the aggregate fair value of the undelivered item. During 2003 and through the third quarter of 2004, the Company deferred all revenue on a \$2.2 million project. During the fourth quarter of 2004, approximately \$2.1 million was recognized on this project, with the remaining revenue to be recognized during 2005.

The Company permits product returns from customers under certain circumstances and also allows returns under the Company's warranty policy. Allowances for product returns are estimated and recorded at the time revenue is recognized. The return allowance is recorded as a reduction to revenues for the estimated sales value of the projected returns and as a reduction in cost of products for the corresponding cost amount. See note 2 to the consolidated financial statements for a full description of the Company's revenue recognition policy.

Allowance for Doubtful Accounts

The Company makes judgments about the credit worthiness of both current and prospective customers based on ongoing credit evaluations performed by the Company's credit department. These evaluations include, but are not limited to, reviewing customers' prior payment history, analyzing credit applications, monitoring the aging of receivables from current customers and reviewing financial statements, if applicable. The allowance for doubtful accounts is developed based on several factors including overall customer credit quality, historical write-off experience and a specific account analysis that project the ultimate collectibility of the accounts. As such, these factors may change over time causing the reserve level to adjust accordingly. When it is determined that a customer is unlikely to pay, a charge is recorded to bad debt expense in the

consolidated statements of operations and the allowance for doubtful accounts is increased. When it becomes certain the customer cannot pay, the receivable is written off by removing the accounts receivable amount and reducing the allowance for doubtful accounts accordingly.

At September 30, 2005, there were approximately \$9.9 million in gross outstanding accounts receivable and \$0.4 million recorded in the allowance for doubtful accounts to cover potential future customer non-payments. At December 31, 2004, there were approximately \$6.7 million in gross outstanding accounts receivable and \$0.5 million recorded in the allowance for doubtful accounts. If economic conditions deteriorate significantly or if one of the Company's large customers were to declare bankruptcy, a larger allowance for doubtful accounts might be necessary.

Inventory Valuation

Inventories are stated at the lower of cost (first-in, first-out) or market and include appropriate elements of material, labor and overhead. The Company's policy is to evaluate all inventory quantities for amounts on-hand that are potentially in excess of estimated usage requirements, and to write down any excess quantities to estimated net realizable value. Inherent in the estimates of net realizable values are management's estimates related to the Company's future manufacturing schedules, customer demand and the development of digital technology, which could make the Company's theatre products obsolete, among other items. Management has managed these risks in the past and believes that it can manage them in the future, however, operating margins may suffer if they are

unable to effectively manage these risks. At September 30, 2005, the Company had recorded gross inventory of approximately \$13.0 million and \$1.4 million of inventory reserves. This compared to \$13.3 million and \$1.1 million, respectively, at December 31, 2004.

Warranty

The Company's products must meet certain product quality and performance criteria. In addition to known claims or warranty issues, the Company estimates future claims on recent sales. The Company relies on historical product claims data to estimate the cost of product warranties at the time revenue is recognized. In determining the accrual for the estimated cost of warranty claims, the Company considers experience with: 1) costs for replacement parts; 2) costs of scrapping defective products; 3) the number of product units subject to warranty claims and 4) other direct costs associated with warranty claims. If the cost to repair a product or the number of products subject to warranty claims is greater than originally estimated, the Company's accrued cost for warranty claims would increase.

Long-lived Assets

The Company reviews long-lived assets, exclusive of goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company's most significant long-lived assets subject to these periodic assessments of recoverability are property, plant and equipment, which have a net book value of \$5.6 million at September 30, 2005. Because the recoverability of property, plant and equipment is based on estimates of future undiscounted cash flows, these estimates may vary due to a number of factors, some of which may be outside of management's control. To the extent that the Company is unable to achieve management's forecasts of future income, it may become necessary to record impairment losses for any excess of the net book value of property, plant and equipment over its fair value.

Goodwill

In accordance with SFAS No. 142, the Company evaluates its goodwill for impairment on an annual basis based on values at the end of the fourth quarter or whenever indicators of impairment exist. The Company has evaluated its goodwill for impairment and has determined that the fair value of the reporting units exceeded their carrying value, so no impairment of goodwill was recognized. Goodwill of approximately \$2.5 million is included in the consolidated balance sheets at September 30, 2005 and December 31, 2004. Management's assumptions about future cash flows for the reporting units require significant judgment and actual cash flows in the future may differ significantly from those forecasted today.

Deferred Income Taxes

Income taxes are accounted for under the asset and liability method. The Company uses an estimate of its annual effective rate at each interim period based on the facts and circumstances known at the time, while the actual effective rate is calculated at year-end. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For the nine months ended September 30, 2005, the Company recognized income tax expense of \$2.0 million, as compared to \$0.3 million for the nine months ended September 30, 2004. During the third quarter of 2004, the Company reversed all valuation allowances against its deferred tax assets as management believed that it was more likely than not that all deferred tax assets would be realized. The reversal was recorded as an offset against income tax expense in the amount of \$1.2 million.

Self-insurance Reserves

The Company is partially self-insured for certain employee health benefits. The related liabilities are included in the accompanying consolidated financial statements. The Company's policy is to accrue the liabilities based on historical information along with certain assumptions about future events.

Stock-Based Compensation

The Company accounts for its stock option plans using Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, which results in no charge to earnings when options are issued at fair market value. SFAS No. 123, *Accounting for Stock-Based Compensation*, issued subsequent to APB Opinion No. 25 and amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, defines a fair value based method of accounting for employee stock options but allows companies to continue to measure compensation cost for employee stock options using the intrinsic value based method described in APB Opinion No. 25.

In accordance with SFAS No. 148, the Company has been disclosing in the notes to the consolidated financial statements the impact on net income and net income per share had the fair value based method been adopted. If the fair value method had been adopted, net income for the nine months ended September 30, 2005 and 2004 would have been \$47,237 and \$34,952 lower than reported, respectively.

In December 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*. This Statement is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires companies to recognize in the income statement the grant date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. SFAS No. 123(R) was effective for interim periods beginning after June 15, 2005. On April 14, 2005, the SEC announced the adoption of a new rule amending the compliance date. SFAS No. 123(R) will now be effective for the Company's first quarter beginning January 1, 2006. The Company is currently determining the impact of SFAS No. 123(R) on its financial position, results of operations and cash flows.

Recent Accounting Pronouncements

See Note 2 to the consolidated financial statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Revenues

Net revenues in 2005 increased 22.1% to \$14.3 million from \$11.7 million in 2004. As discussed in further detail below, the increase resulted entirely from higher revenues from theatre products.

	Three Months Ended September 30,	
	2005	2004
Theatre	\$ 13,228,282	\$ 10,414,218
Lighting	822,404	988,845
Restaurant	209,551	272,451

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

Total net revenue	\$	14,260,237	\$	11,675,514
-------------------	----	------------	----	------------

Theatre Segment

Sales of theatre products increased 27.0% from \$10.4 million in 2004 to \$13.2 million in 2005. In particular, sales of projection equipment increased to \$9.6 million in 2005 from \$7.1 million in 2004 primarily due to higher demand from domestic exhibitors as they continue to add new screens in accordance with their business plans. A larger percent of the business is coming from the Company's largest customers as approximately 68% of total theatre sales in the third quarter resulted from the Company's top 10 customers as compared to 52% a year ago.

Sales of theatre replacement parts declined 16.2% from \$1.9 million in 2004 to \$1.6 million in 2005. Demand for replacement parts rose substantially during 2004 but this growth has not been sustainable during 2005 due in part to a non-recurring sale of replacement parts to a large exhibitor a year-ago.

Sales of xenon lamps to the theatre industry rose 20.4% to \$1.1 million from \$0.9 million a year ago primarily a result of the continuing improvement of the theatre industry in general, increased marketing of the product line and obtaining the business from certain large theatre exhibitors who previously purchased the product from competitors.

Sales of lenses to theatre customers rose 87.5% to \$0.9 million in 2005 from \$0.5 million in 2004, due in large part to obtaining the business of a large exhibitor who previously purchased product from a competitor. In addition, the Company's supplier of lenses struggled in the past couple of years in providing timely shipments due to a bankruptcy reorganization. This supplier is now more financially solid and is able to deliver product when needed.

Lighting Segment

Sales of lighting products decreased 16.8% to \$0.8 million in 2005 from \$1.0 million a year ago primarily a result of selling twelve MK5 Britelights® during 2004 for \$0.2 million as part of a plan to divest this product. There have been no further sales since that time. Spotlight sales were flat at \$0.4 million for both 2005 and 2004 periods as the increased demand experienced in the first quarter has not been sustainable. The Company is developing or marketing new spotlight products that are less expensive, smaller and more user-friendly to respond to the changing nature of the spotlight industry. The Company is also modifying how its core spotlight products, the Super Trouper® and Gladiator®, are marketed and distributed as it believes these industry leading products still have a long market life ahead.

Sales of Skytrackers rose to \$0.2 million compared to \$0.1 million in 2004. Sales of these large lights have historically fluctuated from period to period as selling a few more or less of the product can make a significant difference in sales. The Company expects sales to even out as the year progresses.

Sales of all other lighting products, including but not limited to, replacement parts, xenon lamps and Nocturns® declined to \$0.2 million in 2005 compared to \$0.3 million in 2004. The decreased sales pertain to lower replacement part sales during the quarter.

Restaurant Segment

Restaurant sales fell to \$0.2 million in 2005 from \$0.3 million in 2004, a result of the Company's decision to phase out its unprofitable equipment product line comprised of smokers, ventilation hoods and pressure fryers during 2004. The only sales during 2005 pertaining to the discontinued equipment product line consisted of divesting the remaining inventory on hand. The Company continues to supply parts to its installed customer base and also continues to distribute its Flavor Crisp® marinade and breading products as well as support its Chicken-On-The-Run and BBQ-On-The-Run programs.

Export Revenues

Sales outside the United States (mainly theatre sales) rose to \$3.1 million in 2005 from \$2.9 million in 2004 as sales to Asia continued to strengthen as the year has progressed. The results reflect stronger demand for theatre products in this region. Export sales are sensitive to worldwide economic and political conditions that can lead to volatility. Additionally, certain areas of the world are more cost conscious than the U.S. market and there are instances where the Company's products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market the Company's products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit increased to \$4.1 million in 2005 from \$3.3 million in 2004 and as a percent of revenue increased slightly to 28.4% in 2005 from 28.3% in 2004 due to the reasons discussed below:

Gross profit in the theatre segment increased to \$3.7 million in 2005 from \$2.9 million in 2004 but as a percent of sales decreased to 27.9% from 28.3% a year ago. The results reflect projection equipment and lamp sales representing a higher percentage of sales in 2005 and which carry a lower margin than certain other products within the segment, namely replacement parts. In addition, the Company is experiencing the effects of rising raw material and component parts prices for certain of its products and is also experiencing some customer pricing issues to stay competitive. The Company is currently working on strategies to cover these cost increases and regain pricing competitiveness.

Gross profit in the lighting segment amounted to \$0.3 million for both 2005 and 2004 but as a percent of revenue rose to 32.9% compared to 27.9% a year ago. The results primarily reflect production efficiency gains.

Restaurant margins were also flat at approximately \$0.1 million for both the 2005 and 2004 periods but as a percent of revenue rose to 43.5% from 31.6% a year ago. Restaurant margins have been volatile due to the sell off of the discontinued equipment product line. Now that the majority of this equipment is sold, margins should stabilize in the 35-40% range.

Selling and Administrative Expenses

Selling and administrative expenses amounted to approximately \$2.2 million in 2005 compared to \$1.9 million in 2004 but as a percent of revenue declined to 15.3% from 15.9% in 2004. The expenses rose due to additional consulting costs pertaining to compliance with the Sarbanes/Oxley Act of 2002 and other consulting projects, as well as higher employee bonus expenses. The favorable change as a percentage of revenue pertains to covering certain fixed costs with higher revenues during 2005 and managing selling expenses in an effective manner.

Other Financial Items

During 2005, the Company recorded interest income of approximately \$105,000 compared to \$38,000 in 2004 as the Company earned interest from higher cash levels and invested in higher yield commercial paper. Interest expense was flat at approximately \$8,000 in 2005 compared to a year-ago.

The Company recorded income tax expense in 2005 of \$0.8 million compared to an income tax benefit of \$0.7 million in 2004. The results reflect the reversals of certain valuation reserves pertaining to net deferred tax assets in the amount of \$1.2 million during 2004. The effective tax rate for 2004, excluding the valuation reserve reversals, amounted to 37.9% compared to 38.3% in 2005. The higher effective rate pertains to the Company paying taxes in more states than a year ago.

For the reasons outlined herein, the Company earned net income in 2005 of \$1.2 million compared to \$2.1 million in 2004. This translated into net income per share basic and diluted of \$0.09 in 2005 compared to \$0.17 and \$0.16, respectively, in 2004. The results reflect the income tax benefit of \$1.2 million in 2004 relating to the reversal of the deferred tax valuation allowance discussed earlier.

Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Revenues

Net revenues in 2005 increased 15.0% to \$39.8 million from \$34.6 million in 2004. As discussed in further detail below, the increase resulted primarily from higher revenues from theatre products.

	Nine Months Ended September 30,	
	2005	2004
Theatre	\$ 36,806,106	\$ 31,503,673
Lighting	2,359,449	2,174,434
Restaurant	648,145	952,786
Total net revenues	\$ 39,813,700	\$ 34,630,893

Theatre Segment

Sales of theatre products increased 16.8% from \$31.5 million in 2004 to \$36.8 million in 2005. In particular, sales of projection equipment increased to \$25.9 million in 2005 from \$21.6 million in 2004, due primarily to higher demand from domestic exhibitors as they continue to add new screens in accordance with their business plans. A larger percentage of the business is coming from the Company's largest customers as 55% of total theatre sales have resulted from the Company's top 10 customers compared to 50% a year ago.

Sales of theatre replacement parts declined 9.9% from approximately \$5.6 million in 2004 to approximately \$5.1 million in 2005. Demand for replacement parts rose substantially during 2004 but has not been sustainable during 2005 due in part to a special sale of replacement parts to a large exhibitor a year-ago.

Sales of xenon lamps to the theatre industry rose 25.1% to \$3.5 million from \$2.8 million a year ago primarily as a result of the continuing improvement of the theatre industry in general, increased marketing of the product line and obtaining the business of a large exhibitor who previously purchased the product from a competitor.

Sales of lenses to theatre customers rose 53.9% to \$2.4 million in 2005 from \$1.5 million in 2004, due in part to obtaining the business of a large exhibitor who previously purchased product from a competitor. In addition, the Company's supplier of lenses struggled in the past couple of years in providing timely shipments due to a bankruptcy reorganization which affected sales. This supplier is now more financially solid and is able to deliver product when needed.

Lighting Segment

Sales of lighting products increased 8.5% to \$2.4 million from \$2.2 million a year ago primarily a result of sales of follow spotlights which rose to \$1.1 million from \$0.8 million a year ago due in part to a turnaround in industry demand during the first and second quarters. The Company is developing or marketing new spotlight products that are less expensive, smaller and more user-friendly to respond to the changing nature of the spotlight industry. The Company is also modifying how its core spotlight products, the Super Trouper® and Gladiator®, are marketed and distributed as it believes these industry leading products still have a long market life ahead.

Sales of Skytracker® products declined to \$0.4 million in 2005 from \$0.5 million in 2004 primarily as a result of a special sale of lights for the Staples Center in Los Angeles during the first quarter of 2004 which did not reoccur in 2005.

Sales of all other lighting products, including but not limited to, replacement parts, xenon lamps, Nocturns® and Britelights®, decreased to \$0.8 million in 2005 from \$0.9 million in 2004. The decrease primarily resulted from the Company selling twelve MK5 Britelights® for approximately \$0.2 million during 2004 as part of a plan to divest this product. There have been no further sales since that time. Sales of xenon lamps partially offset this lost revenue source during 2005.

Restaurant Segment

Restaurant sales fell to \$0.6 million in 2005 from \$1.0 million in 2004, a result of the Company's decision to phase out its unprofitable equipment product line comprised of smokers, ventilation hoods and pressure fryers during 2004. The only sales pertaining to the equipment product line consist of divesting the remaining inventory on hand. The Company continues to supply parts to its installed customer base and also continues to distribute its Flavor Crisp® marinade and breading products as well as support its Chicken-On-The-Run and BBQ-On-The-Run programs.

Export Revenues

Sales outside the United States (mainly theatre sales) rose to \$10.4 million in 2005 from \$9.6 million in 2004, as the Company experienced stronger demand in Asia, Mexico and Latin America. The Company is becoming more of a presence in these regions at a time when demand for theatre products are increasing. Sales into Europe were below year-ago levels but did show improvements during the second and third quarters. Export sales are sensitive to worldwide economic and political conditions that can lead to volatility. Additionally, certain areas of the world are more cost conscious than the U.S. market and there are instances where the Company's products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market the Company's products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit increased to \$11.1 million in 2005 from \$9.7 million in 2004 but as a percent of revenue remained steady at 28.0% for both periods.

Gross profit in the theatre segment increased to \$10.1 million in 2005 from \$8.9 million in 2004 but as a percent of revenue decreased to 27.4% from 28.2% a year ago. The results reflect projection equipment and lamp sales representing a higher percentage of sales in 2005 and which generally carry a lower margin than other products within the segment, namely replacement parts. The Company is also experiencing the effects of rising raw material and component parts prices for certain of its products.

Gross profit in the lighting segment rose to \$0.8 million in 2005 from \$0.6 million in 2004 and as percent of revenue rose to 32.2% from 26.8% in 2004 due primarily to a more favorable product mix sold and production efficiency gains.

Restaurant margins rose to \$0.3 million in 2005 compared to \$0.2 million in 2004 and as a percent of revenue rose to 45.5% compared to 25.3% in 2004. Restaurant margins have been volatile due to the sell off of the discontinued equipment product line. Now that the majority of this equipment is sold, margins should stabilize in the 35-40% range.

Selling and Administrative Expenses

Selling and administrative expenses amounted to \$6.2 million in 2005 compared to \$5.6 million in 2004 but as a percent of revenue declined to 15.5% from 16.1% in 2004. These expenses rose due to additional consulting costs pertaining to compliance with the Sarbanes/Oxley Act of 2002 and other consulting projects, as well as higher employee bonus expenses. The favorable change as a percentage of revenue pertains to covering certain fixed costs with higher revenues during 2005 and managing selling expenses in an effective manner.

Other Financial Items

During 2005, the Company recorded interest income of approximately \$273,000 compared to \$76,000 in 2004 as the Company earned interest from higher cash levels and invested in higher yield commercial paper. Interest expense declined to approximately \$26,000 in 2005 from approximately \$28,000 in 2004 primarily resulting from the fee on the Company's unused portion of its credit facility being renegotiated to 0.125% from 0.375% during 2004.

The Company recorded income tax expense in 2005 of \$2.0 million compared to \$0.3 million in 2004. The 2004 amount reflects reversals of certain deferred tax asset valuation reserves resulting in a credit to income tax expense in the amount of \$1.2 million. The effective tax, excluding the valuation reversals, amounted to 37.0% in 2004 compared to 38.0% in 2005. The increase in the effective rate pertains primarily to the Company paying taxes in more states than a year ago.

For the reasons outlined herein, the Company earned net income in 2005 of \$3.2 million compared to \$3.8 million in 2004. This translated into net income per share basic and diluted of \$0.24 and \$0.23 in 2005, respectively, compared to \$0.30 and \$0.28, respectively, in 2004. The results reflect the income tax benefit of \$1.2 million in 2004 relating to the reversal of the deferred tax valuation allowance discussed earlier.

Liquidity and Capital Resources

The Company is a party to a revolving credit facility with First National Bank of Omaha expiring August 28, 2006. The credit facility provides for borrowings up to the lesser of \$4.0 million or amounts determined by an asset based lending formula, as defined. Borrowings available under the credit facility amounted to \$4.0 million at September 30, 2005. No amounts are currently outstanding. The Company pays interest on outstanding amounts equal to the Prime Rate plus 0.25% (7.0% at September 30, 2005) and pays a fee of 0.125% on the unused portion. The credit facility contains certain restrictive covenants mainly related to maintaining certain earnings, as defined, and restrictions on acquisitions and dividends. All of the Company's personal property and stock in its subsidiaries secure this credit facility.

Net cash provided by operating activities amounted to \$3.3 million in 2005 compared to \$3.6 million in 2004. The decrease in cash flow primarily relates to higher accounts receivable balances in 2005. In addition, despite inventory levels decreasing \$0.5 million during 2005, it could not match the inventory liquidations experienced during 2004 of \$2.3 million. The Company is now returning to more normalized inventory turnover levels as the theatre exhibition industry stabilizes. Items contributing to operating cash flow primarily consisted of higher operating income, accounts payable and income tax accruals. The increases in accounts payable and income taxes essentially relate to the timing of payments and are expected to even out as the year progresses.

Net cash used in investing activities amounted to \$0.7 million in 2005 compared to \$0.6 million in 2004, as both periods included purchasing large machining centers to meet current and future demands.

Net cash provided by financing activities amounted to \$814,000 compared to \$51,000 in 2004. The Company received proceeds of \$833,000 from its stock plans in 2005 and made \$19,000 of debt payments. In large part, the proceeds received from the stock plans resulted from plans set up under SEC Rule 10b5-1 for certain executives to exercise and sell certain stock options prior to the options expiring in September of 2005. During 2004, the Company received proceeds of \$69,000 from its stock plans and made debt payments of \$18,000.

Transactions with Related and Certain Other Parties

There were no significant transactions with related and certain other parties during 2005.

Internal Controls Over Financial Reporting

Current SEC rules implementing Section 404 of the Sarbanes-Oxley Act of 2002 will require the Company's annual report on Form 10-K for fiscal 2007 to include a report on management's assessment of the effectiveness of the Company's internal controls

over financial reporting and a statement that the Company's independent registered public accounting firm has issued an attestation report on management's assessment of the Company's internal controls over financial reporting and a report on the effectiveness of the Company's internal controls over financial reporting. However, it is possible that the Company will become an accelerated filer as defined in Rule 12b-2 of the Exchange Act and if so this report and statement will need to be included in its Form 10-K for fiscal 2006. The Company will not know whether it will become an accelerated filer until June 30, 2006, which is the next date at which this status is determined. While the Company has not yet identified any material weaknesses in internal controls over financial reporting, there are no assurances that the Company will not discover deficiencies in its internal controls as it implements new documentation and testing procedures to comply with the new Section 404 reporting requirement. If the Company discovers deficiencies or is unable to complete the work necessary to properly evaluate its internal controls over financial reporting, there is a risk that management and/or the Company's independent registered public accounting firm may not be able to conclude that the Company's internal controls over financial reporting are effective.

Concentrations

The Company's top ten customers accounted for approximately 51% of consolidated net revenues for the nine months ended September 30, 2005. These customers were primarily from the theatre segment. Trade accounts receivable from these customers represented approximately 67% of net consolidated receivables at September 30, 2005. In addition, receivables from Vari Internacional, AMC Theatres, Regal Entertainment Group and National Cinema Supply each represented over 10% of consolidated receivables at September 30, 2005. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company's significant customers could have a material adverse effect on the Company's business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.

Financial instruments that potentially expose the Company to a concentration of credit risk principally consist of accounts receivable. The Company sells product to a large number of customers in many different geographic regions. To minimize credit concentration risk, the Company performs ongoing credit evaluations of its customers' financial condition or uses letters of credit.

Increased competition also results in continued exposure to the Company. If the Company loses market share or encounters more competition relating to the development of new technology for alternate means of motion picture presentation such as digital technology, the Company may be unable to lower its cost structure quickly enough to offset the lost revenue. To counter these risks, the Company has initiated a cost reduction program, continues to streamline its manufacturing processes and is formulating a strategy to respond to the digital marketplace. The Company also is focusing on a growth and diversification strategy to find alternative product lines to become less dependent on the theatre exhibition industry. However, no assurances can be given that this strategy will succeed or that the Company will be able to obtain adequate financing to take advantage of potential opportunities.

The principal raw materials and components used in the Company's manufacturing processes include aluminum, reflectors, electronic subassemblies and sheet metal. The Company utilizes a single contract manufacturer for each of its intermittent movement components, reflectors, certain aluminum castings, lenses and xenon lamps. Although the Company has not to-date experienced a significant difficulty in obtaining these components, no assurance can be given that shortages will not arise in the future. The loss of any one or more of such contract manufacturers could have a short-term adverse effect on the Company until alternative manufacturing arrangements were secured. The Company is not dependent upon any one contract manufacturer or supplier for the balance of its raw materials and components. The Company believes that there are adequate alternative sources of such raw materials and components of sufficient quantity and quality.

Hedging and Trading Activities

The Company does not engage in any hedging activities, including currency-hedging activities, in connection with its foreign operations and sales. To date, all of the Company's international sales have been denominated in U.S. dollars, exclusive of Strong Westrex, Inc. sales, which are denominated in Hong Kong dollars. In addition, the Company does not have any trading activities that include non-exchange traded contracts at fair value.

Off Balance Sheet Arrangements and Contractual Obligations

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

Contractual Obligations	Total	Payments Due by Period	
		Remaining in 2005	Thereafter
Long-term debt, including interest	\$ 52,150	7,450	44,700
Operating leases	202,915	39,199	163,716
Less sublease receipts	(58,203)	(21,826)	(36,377)
Net contractual cash obligations	\$ 196,862	24,823	172,039

There are no other contractual obligations other than inventory and property, plant and equipment purchases in the ordinary course of business.

Seasonality

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

Environmental and Legal

See Note 2 to the consolidated financial statements, and Item 3 of this report, for a full description of all environmental and legal matters.

Inflation

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. The Company did experience higher than normal prices on certain metals and aluminum products during the year coupled with higher freight costs as freight companies passed on a portion of higher gas and oil costs. Historically, the Company has been able to offset any inflationary effects by either increasing prices or improving cost efficiencies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The Company markets its products throughout the United States and the world. As a result, the Company could be adversely affected by such factors as changes in foreign currency rates and weak economic conditions. In particular, the Company was impacted by the downturn in the North American theatre exhibition industry in fiscal years 2000 to 2002 in the form of lost revenues and bad debts. Additionally, as a majority of sales are currently denominated in U.S. dollars, a strengthening of the dollar can and sometimes has made the Company's products less competitive in foreign markets. As stated above, the majority of the Company's foreign sales are denominated in U.S. dollars except for its subsidiary in Hong Kong. The Company purchases the majority of its lenses from a German manufacturer. The strengthening of the Euro compared to the U.S. dollar made these purchases more expensive during 2004. Based on forecasted purchases during 2005, an average 10% devaluation of the dollar compared to the Euro would cost the Company approximately \$98,000 per annum.

The Company has also evaluated its exposure to fluctuations in interest rates. If the Company would borrow up to the maximum amount available under its variable interest rate credit facility, a one percent increase in the interest rate would increase interest expense by \$40,000 per annum. No amounts are currently outstanding under the credit facility. Interest rate risks from the Company's other interest-related accounts such as its postretirement obligations are deemed to not be significant.

The Company has not historically and is not currently using derivative instruments to manage the above risks.

Item 4. Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective at ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (as amended) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

A review of the Company's current litigation is disclosed in Note 2 to the consolidated financial statements. Except as discussed in Note 2, the other legal proceedings to which the Company is a party are ordinary routine litigation matters incidental to the business.

Item 6. Exhibits

See the Exhibit Index on page 27.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BALLANTYNE OF OMAHA, INC.

By: /s/ John Wilmers
John Wilmers, President,
Chief Executive Officer, and Director
Date: November 8, 2005

By: /s/ Brad French
Brad French, Secretary/Treasurer and
Chief Financial Officer
Date: November 8, 2005

EXHIBIT INDEX

- 4.2.4 Fourth Amendment to Revolving Credit Agreement between the Company and First National Bank of Omaha.

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

- 32.1 18 U.S.C. Section 1350 Certification of Chief Executive Officer.

- 32.2 18 U.S.C. Section 1350 Certification of Chief Financial Officer.

Filed herewith