BRAZIL FUND INC
Form N-CSRS
March 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSRS

Investment Company Act file number 811-5269

THE BRAZIL FUND, INC.
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, New York 10154
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (617) 295-2663

Salvatore Schiavone
Two International Place
Boston, Massachusetts 02110
(Name and Address of Agent for Service)

Date of fiscal year end: 6/30

Date of reporting period: 12/31/03

[Scudder Investments logo]

The Brazil Fund, Inc.

Semiannual Report to Stockholders

December 31, 2003

A closed-end investment company seeking long-term capital appreciation through investment primarily in the equity securities of Brazilian issuers.

The Brazil Fund, Inc.

Investment Objective and Policies

long-term capital appreciation through investment primarily in equity securities of Brazilian issuers

Investment Characteristics

closed-end investment company investing in a broad spectrum of Brazilian industries

a vehicle for international diversification through participation in the Brazilian economy

General Information

Executive Offices	The Brazil Fund, Inc. 345 Park Avenue New York, NY 10154
Automated Information Line	Scudder Closed-End Fund Info Line (800) 349-4281
Web Site	**www.TheBrazilFund.com** or visit our Direct Link: **CEF.Scudder.com (Do not use www.)** Obtain monthly fact sheets, financial reports, press releases and webcasts when available.
Transfer Agent and Registrar	Scudder Investments Service Company P.O. Box 219066 Kansas City, MO 64121-9066 For account information: 1-800-294-4366
Dividend Reinvestment Plan Agent	UMB Bank, N.A.
Legal Counsel	Debevoise & Plimpton
Custodian	Brown Brothers Harriman & Co.
Independent Auditors	PricewaterhouseCoopers LLP
New York Stock Exchange Symbol - BZF	

Contents

Manager

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Investments in funds involve risks. The fund may focus its investments in certain geographical regions, thereby increasing its vulnerability to developments in that region. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes and market risks. This may result in greater share price volatility. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the fund's shares is determined by a number of factors, several of which are beyond the control of the fund. Therefore, the fund cannot predict whether its shares will trade at, below or above net asset value.

This report is sent to the stockholders of The Brazil Fund, Inc. for their information. It is not a prospectus, circular, or representation intended for use in the purchase or sale of shares of the fund or of any securities mentioned in the report.

Fund shares are not FDIC-insured and are not deposits or other obligations of, or guaranteed by, any bank. Fund shares involve investment risk, including possible loss of principal.

Portfolio Management Review

In the following interview, Portfolio Managers Paul Rogers and Tara Kenney discuss the recent market environment and their strategy in managing The Brazil Fund, Inc. during the six-month period ended December 31, 2003.

Q: How did Brazil's stock market perform during the second half of the year?

A: Stocks in Brazil rallied strongly in the second half. After pausing in June and July to digest a 30%-plus gain from its February low, the Brazilian market trended sharply higher from the beginning of August through the end of December. The Bovespa Stock Index closed the year at 22,236, in local currency terms. In comparison, the index closed at a low of 9,995 on February 26, 2003. The index now stands far above its previous high-water mark - set in March 2000 - of 18,951. However, for dollar investors, it is still some 35% below its peak in 1997.

Of course, a portion of this year's rally in Brazil was a result of the rebound that took place across all global markets. During the past year, lower interest rates in the United States, an improvement in global growth and a fading focus on geopolitical issues led to an increased appetite for risk among investors. This provided a boost to the more-aggressive areas of the investment spectrum, particularly emerging-markets equities. Brazil was a standout within the asset class, as investors favored its stock market for a variety of reasons: improving fiscal balance, lower interest rates, continued progress on the reform front and higher commodity prices. This confluence of positive factors provided welcome relief to a market that had lost almost half of its value from March 2000 through March 2003.

Q: How did the fund perform in this favorable environment?

A: The fund's net asset value (NAV) total return was 57.49% for the six-month reporting period. Its share price - quoted on the NYSE - returned 64.23% to close at $23.95 per share. For the full 2003 calendar year, the fund produced a total return of 109.45% at NAV, while its share price gained 120.99%. This represents the largest gain in a single calendar year in the fund's history. Also, over the 12-month period, the share price discount to net asset value decreased from 17.5% to 12.9%.

The fund underperformed its benchmark, the Bovespa Index, for the six-month reporting period. This is due largely to our focus on higher-quality companies. As always, we continue to emphasize companies with limited debt relative to cash flow, competitive market strength, high return on invested capital and strong management. At the times when investors' risk aversion is low and lower-quality companies are rallying, this approach may lead to underperformance. However, we believe the most effective long-term strategy is to buy and hold what we see as Brazil's best companies regardless of short-term market trends. We feel this is borne out by the fund's long-term performance results - for the three-, five- and 10-year periods ended December 31, 2003, the fund's average annual market price returns were 16.94%, 21.18% and 10.40%, respectively, compared with -.69%, 6.41% and 9.06%, respectively, for the Bovespa. We believe the fund's performance has been helped by its closed-end structure, which allows us to invest for the long term without having to maintain cash or other highly liquid securities to accommodate potential shareholder redemptions.

We continue to focus on the fund's illiquid and small-cap companies which have attributed to the fund's long-term outperformance. A small-cap that performed particularly well for the fund during this period was Sadia, which outperformed Bovespa by more than 100% during the period.

Q: Will you discuss the political and economic backdrop in Brazil?

A: With economic growth beginning to pick up, inflationary expectations and interest rates declining, and improvement in the country's budget, the macroeconomic backdrop for stocks has become much more favorable. In addition, a continued positive political agenda, with progress on the reform front, has given Brazil an added catalyst for good performance.

The economic picture has been favorable for Brazil. The recovery in global growth has provided a boost to all emerging-markets economies, but Brazil in particular has benefited as rising demand from China has contributed to a sharp increase in commodities prices. This has been a positive both for commodity-oriented Brazilian companies in the iron ore, pulp and steel sectors - which have seen strong top-line growth - and for the government, which has benefited from higher tax revenues and an improved trade balance. Expectations for 2004 gross domestic product growth now range between 4% and 4.5%, which has driven positive earnings revisions and some expansion in price-to-earnings multiples. Inflation expectations have remained muted despite this pickup in growth, which has allowed the Central Bank to cut interest rates to 17% (versus a high of 27% in December 2002). Lower interest rates have led to an increase in credit availability, enabling consumers to begin buying durables such as autos and "white goods" (washing machines, etc.), which in turn has helped Brazil's steel producers.

The political backdrop, which has been positive since President Luis Inacio Lula da Silva ("Lula") took office in October 2002, also continued to improve. The process of reform remains on track, as the government recently addressed the shortfall in the social security system and passed a tax simplification plan that standardizes tax rates among the states. With the political picture increasingly stable, and electricity and other reforms showing progress, country risk has diminished. The improvement in Brazil's economic and political situation also helped the country close an agreement with the International Monetary Fund that gives it a standby credit facility of US $14 billion. The program is preventive, and no drawings are expected.

Despite the progress Brazil has made in recent years, much work remains to be done. Both the corporate sector and the government continue to have sizable debt balances, and the government needs to build its dollar reserves to protect against a global downturn. In addition, exports need to grow beyond commodities into more manufactured and value-added goods. Brazil's export-led recovery has not yet led to domestic job growth, which is depressing real wages and household consumption. Although looser credit has boosted the sales of big-ticket items, the overall picture for retailers remains mixed as consumers have yet to regain their confidence. Growth in domestic consumption will be a necessary next phase for Brazil's economy in order to ensure that the export-led recovery stays on track.

Q: What changes did you make to the portfolio during the period?

A: For most of the year, the portfolio was overweight in materials stocks such as those in the steel, mining, and pulp and paper sectors. This was a significant positive for fund returns, since all of these industry groups delivered strong market performance. However, we opted to trim the fund's position in this area in order to book profits and maintain appropriate diversification in the fund. We still like the fundamental story of many materials stocks and have been adding to selected steel and iron ore companies such as Usinas Siderurgicas de Minas Gerais SA, Companhia Siderurgica Nacional and Companhia Vale do Rio Doce, which stand to benefit from both rising sales of white goods and higher demand from China.

An area that hurt the portfolio's relative performance was its underweight in electric utilities. The fund was underweight in this sector for much of the year, due to what we saw as a challenging regulatory environment and excessive dollar debt levels. We have since brought up the fund's weighting in this sector, as the government considers regulatory reform that creates a better pricing environment for utilities companies. We added to Companhia Energética de Minas Gerais (electricity) and Companhia Saneamento Basico de São Paulo SA (water), but lightened the fund's weighting in Companhia Paranaeuse de Energia - Copel (electricity) due to management concerns. Another notable shift was our decision to trim the fund's position in the fixed-line telecommunications companies Brasil Telecom and Tele Norte Leste Particpacoes SA. We believe the outlook for fixed-line firms is becoming less favorable due in part to increasing competition from wireless providers.

We also elected to trim our weighting in the consumer sector on share price appreciation, reducing positions in holdings Sadia (meat processing) and Souza Cruz (tobacco) after excellent returns in both stocks. In the banking sector, we rotated some assets out of top holdings of Banco Itau and into Banco Bradesco, which had underperformed and was thus available at an attractive price.

Q: What do you see as the potential risks and opportunities in 2004?

A: We see three important risk factors that could dampen investors' enthusiasm for Brazil. First, higher interest rates in the United States - which might hinder recovery in global growth - could take some of the energy out of emerging-markets economies. Second, any geopolitical event that increases investors' aversion to risk will likely cause a reaction in Brazil, given the country's continued high indebtedness and the fact that sovereign yields are at the low end of the historical range. Finally, investors could decide to take profits should a pickup in the domestic economy not be forthcoming or, conversely, if we were to see signs of higher inflation.

Having said this, we believe that the current environment remains positive. Ongoing global growth, combined with continuing low interest rates, provides the country with a benign environment in which to continue its efforts to enact reforms and strengthen its fiscal situation. In addition, we believe Brazil's stock market continues to offer a favorable combination of reasonable valuations and improving fundamentals. Brazilian stocks closed the year roughly at fair value with their historical averages, even as interest rates and the yield spread continued to move lower. At the same time, the earnings picture should remain positive. It is also important to note that local investors are underweight in the Brazilian equity market, so any pickup in buying by mutual funds and domestic pension funds should be a positive. Taking all of these factors together, we believe the backdrop remains favorable for Brazil's stock market.

The views expressed in this report reflect those of the portfolio managers only through the end of the period of the report as stated on the cover. The managers' views are subject to change at any time based on market and other conditions and should not be construed as a recommendation.

Other Information

Resignation of Nicholas Bratt

On September 2, 2003, the Board of Directors accepted the resignation of Nicholas Bratt as a Director, President and member of the Executive and Valuation Committees of the fund, effective August 21, 2003, and approved a decrease in the size of the Board to seven members. The Board then elected Richard T. Hale as President of the fund.

Change in Officer

Effective December 4, 2003, Judith Hannaway no longer serves as Vice President of the fund.

Proxy Voting

A description of the fund's policies and procedures for voting proxies for portfolio securities can be found on our Web site - scudder.com (type "proxy voting" in the search field) - or on the SEC's Web site - www.sec.gov. To obtain a written copy without charge, call us toll free at 1-800-621-1048.

Dividend Reinvestment Plan and Cash Purchase Plan

The fund's Dividend Reinvestment and Cash Purchase Plan offers you a convenient way to have your dividends and capital gain distributions reinvested in shares of the fund. We believe this Plan is attractive for stockholders. Its features are more fully described on page 29. You may obtain more detailed information by requesting a copy of the Plan from the Transfer Agent. All correspondence (including notifications) should be directed to: The Brazil Fund Dividend Reinvestment and Cash Purchase Plan, c/o Scudder Investments Service Company, P.O. Box 219066, Kansas City, MO 64121-9066, 1-800-294-4366.

Share Repurchases

The Board of Directors of The Brazil Fund, Inc. has authorized the fund to effect periodic repurchases of its shares in the open market from time to time when the fund's shares trade at a discount to their NAV. Subject to periodic review by the fund's Board of Directors, repurchases may be made at such time and in such amounts as the fund's Manager believes will further the achievement of the fund's objectives. Depending on market conditions, available funds, regulatory requirements and alternative investment opportunities, such repurchases are limited to (1) 5% of the shares outstanding at the beginning of the calendar year, plus (2) an estimate of shares to be issued in connection with the current calendar year's dividends, plus (3) the number of shares authorized for purchase in the previous calendar year that have not been purchased. In measuring the number of shares authorized for repurchase, the shares relating to the current calendar year's dividends are estimated at 50% of the number of shares issued in connection with the prior calendar year's dividends or until such time during the calendar year that the fund's Manager has a more accurate projection of the calendar year's dividends. Repurchases made based on this estimate shall continue to have been authorized, even if the actual dividend or related share issuance is lower. During the six-month period ended December 31, 2003, 96,400 fund shares were repurchased by the fund pursuant to the share repurchase plan as described above representing 0.6% of the shares outstanding as of June 30, 2003.

Net Asset Value

The fund's NAV is published weekly on Monday and the fund's Market Value is published every weekday in *The Wall Street Journal* under the heading "Closed End Funds." The fund's NAV is also published in *The New York Times* and *Barron's*.

Investment Summary as of December 31, 2003

Past results are not necessarily indicative of future performance of the Fund. Investment return and principal value will fluctuate.

Historical Information

	Total Return (%)					
	Market Value		**Net Asset Value[a]**		**Index[b]**	
	Cumulative	**Average Annual**	**Cumulative**	**Average Annual**	**Cumulative**	**Average Annual**
Current Quarter	36.48	-	33.36	-	40.07	-
One Year	120.99	120.99	109.45	109.45	140.73	140.73
Three Year	59.93	16.94	37.79	11.28	-2.05	-.69
Five Year	161.34	21.18	118.72	16.94	36.47	6.41
Ten Year	169.01	10.40	211.02	12.02	138.25	9.06

Per Share Information and Returns[a]

	Yearly periods ended December 31									
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Net Asset Value ($)	31.10	20.73	25.75	26.42	14.92	23.86	21.91	18.49	13.46	27.49
Income Dividends ($)	-	.30	.55	.51	.75	.45	.42	.53	.27	.63
Capital Gains and Other Distributions ($)	2.46	1.05	.32	2.75	2.27	-	.50	.19	-	-
Total Return (%)	61.09	-23.31[c]	28.89[c]	19.75	-25.42	64.43	-3.47	-11.43	-25.72	109.45

[a] *Total investment returns reflect changes in net asset value per share during each period and assume that dividends and capital gains distributions, if any, were reinvested. These percentages are not an indication of the performance of a shareholder's investment in the Fund based on market price.*

[b] *Bovespa Stock Index ($) is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. Index returns assume reinvested dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.*

[c] *Total returns would have been lower had certain expenses not been reduced.*

Portfolio Summary as of December 31, 2003

Asset Allocation	**12/31/03**	**6/30/03**
Equity Securities	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (Excludes Cash Equivalents)	**12/31/03**	**6/30/03**
Materials	29%	24%
Consumer Staples	20%	22%

Financials	14%	15%
Energy	11%	11%
Telecommunication Services	9%	11%
Industrials	9%	9%
Utilities	7%	7%
Consumer Discretionary	1%	1%
	100%	100%

Ten Largest Equity Holdings (67.5% of Portfolio)	
1. Petróleo Brasileiro SA	10.6%
2. Banco Itaú Holding Financeira SA	10.6%
3. Companhia de Bebidas das Americas	9.4%
4. Companhia Vale do Rio Doce	8.2%
5. Weg SA	5.6%
6. Companhia Siderurgica Nacional	5.3%
7. Gerdau SA	5.2%
8. Aracruz Celulose SA	4.4%
9. Souza Cruz SA	4.1%
10. Votorantim Celulose e Papel SA	4.1%

Asset allocation, sector diversification and portfolio holdings are subject to change.

For more complete details about the Fund's investment portfolio, see page 15. A monthly Fact Sheet is available upon request. Information concerning portfolio holdings of the Fund as of month end is available upon request no earlier than 15 days after month end. Please call 1-800-349-4281.

Investment Portfolio as of December 31, 2003

	Shares	Value ($)
Equity Securities 99.6%		
Consumer Discretionary 0.7%		
Textiles, Apparel & Luxury Goods		
So Paulo Alpargatas SA (Preferred)	47,579,600	**3,290,998**
Consumer Staples 19.5%		
Beverages 9.4%		
Companhia de Bebidas das Americas (Preferred)	162,899,565	**41,633,332**
Food & Drug Retailing 2.8%		
Companhia Brasileira de Distribuicao Grupo Pao de Acucar (Preferred)	517,616,400	**12,602,523**
Food Products 3.2%		
Sadia SA (Preferred)	10,198,045	**14,037,081**

Tobacco 4.1%		
Souza Cruz SA (Voting)	1,735,943	**18,172,919**
Energy 10.6%		
Oil & Gas		
Petróleo Brasileiro SA (Preferred)	1,773,458	**46,858,790**
Financials 14.4%		
Banks		
Banco Bradesco SA (Preferred)	3,224,430,768	16,950,146
Banco Itaú Holding Financeira SA (Preferred)	471,779,480	46,827,152
		63,777,298
Industrials 9.0%		
Aerospace & Defense 3.4%		
Empresa Brasileira de Aeronautica SA (Preferred)	1,686,632	**14,990,988**
Electrical Equipment 5.6%		
Weg SA (Preferred)	14,926,600	**24,778,724**
Materials 29.4%		
Metals & Mining 20.9%		
Caemi Mineracao e Metalurgica SA (Voting)	13,490,500	5,925,276
Companhia Siderurgica Nacional (Voting)	437,400,000	23,704,160
Companhia Vale do Rio Doce "A" (Preferred)**	716,104	36,455,303
Gerdau SA (Preferred)	1,086,680	22,924,945
Usinas Siderurgicas de Minas Gerais SA	325,600	3,822,971
		92,832,655
Paper & Forest Products 8.5%		
Aracruz Celulose SA "B" (Preferred)	5,351,599	19,618,520
Votorantim Celulose e Papel SA (Preferred)	286,900,000	18,127,833
		37,746,353
Telecommunication Services 8.8%		
Diversified Telecommunication Services 7.0%		
Brasil Telecom SA (Preferred)	872,766,839	4,587,949
Brasil Telecom Participaçoes SA (Preferred)	1,184,456,600	8,852,190
Tele Norte Leste Participaçoes SA (Voting)*	4,377	53
Tele Norte Leste Participaçoes SA (Preferred)	838,807,592	13,176,082
Telemar Norte Leste SA "A" (Preferred)	219,434,100	4,371,227
		30,987,501
Wireless Telecommunication Services 1.8%		
Tele Centro Oeste Celular Participaçoes SA (Preferred)	1,055,000,000	3,506,329
Telesp Celular Participaçoes SA (Preferred)*	1,680,000,000	4,398,271
		7,904,600
Utilities 7.2%		
Electric Utilities 5.5%		

Centrais Electricas Brasileiras SA "B" (Preferred)	380,000,000	5,940,169
Companhia Energética de Minas Gerais (Preferred)	842,171,369	15,363,839
Companhia Paranaense de Energia-Copel "B" (Preferred)	645,166,700	3,034,503
		24,338,511
Multi-Utilities & Unregulated Power 0.4%		
Ultrapar Participaçoes SA (Preferred)	143,748,000	**1,853,835**
Water Utilities 1.3%		
Companhia Saneamento Basico de São Paulo SA (Voting)	106,400,000	**6,005,355**
Total Equity Securities (Cost $171,099,516)		**441,811,463**
Cash Equivalents 0.4%		
Scudder Cash Management QP Trust, 1.11% (b) (Cost $1,974,976)	1,974,976	**1,974,976**
Total Investment Portfolio - 100.0% (Cost $173,074,492) (a)		**443,786,439**

** Non-income producing security.*

*** These shares have limited voting rights.*

(a) The cost for federal income tax purposes was $173,144,580. At December 31, 2003, net unrealized appreciation for all securities based on tax cost was $270,641,859. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $284,346,557 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $13,704,698.

(b) Scudder Cash Management QP Trust is also managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

The accompanying notes are an integral part of the financial statements.

Financial Statements

Statement of Assets and Liabilities as of December 31, 2003	
Assets	
Investments: Investments in securities, at value (cost $171,099,516)	$ 441,811,463
Investment in Scudder Cash Management QP Trust, at value (cost $1,974,976)	1,974,976
Total investments in securities, at value (cost $173,074,492)	443,786,439
Brazilian Real, at value (cost $7,875,297)	7,889,520
Receivable for investments sold	2,121,079
Dividends receivable	3,817,949
Other assets	16,052
Total assets	457,631,039
Liabilities	
Dividends payable	10,232,011
Accrued management fee	381,407
Other accrued expenses and payables	468,846

Total liabilities	11,082,264
Net assets, at value	**$ 446,548,775**
Net Assets	
Net assets consist of: Accumulated distributions in excess of net investment income	(201,343)
Net unrealized appreciation (depreciation) on: Investments	270,711,947
Brazilian real related transactions	74,992
Accumulated net realized gain (loss)	(9,651,416)
Cost of 195,700 shares held in treasury	(3,033,037)
Paid-in capital	188,647,632
Net assets, at value	**$ 446,548,775**
Net Asset Value per share ($446,548,775 / 16,241,288 shares of common stock issued and outstanding, $.01 par value, 50,000,000 shares authorized)	**$ 27.49**

The accompanying notes are an integral part of the financial statements.

Statement of Operations for the six months ended December 31, 2003	
Investment Income	
Income: Dividends (net of foreign taxes withheld of $955,399)	$ 7,209,657
Interest - Scudder Cash Management QP Trust	9,474
Total Income	7,219,131
Expenses: Management fee	1,958,755
Administrator's fee	25,000
Services to shareholders	16,151
Custodian and accounting fees	509,268
Auditing	54,234
Legal	25,683
Directors' fees and expenses	42,379
Reports to shareholders	42,206
NYSE listing fee	16,625
Other	5,831
Total expenses	2,696,132
Net investment income (loss)	**4,522,999**
Realized and Unrealized Gain (Loss) on Investment Transactions	
Net realized gain (loss) from: Investments	(2,994,811)
Brazilian real related transactions (net of CPMF tax of $32,689)	61,905
	(2,932,906)
Net unrealized appreciation (depreciation) during the period on: Investments	164,375,713

Brazilian real related transactions	(39,980)
	164,335,733
Net gain (loss) on investment transactions	**161,402,827**
Net increase (decrease) in net assets resulting from operations	**$ 165,925,826**

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Net Assets		
	Six Months Ended December 31, 2003	**Year Ended June 30, 2003**
Operations: Net investment income (loss)	$ 4,522,999	$ 8,221,351
Net realized gain (loss) on investment transactions	(2,932,906)	(2,753,469)
Net unrealized appreciation (depreciation) on investment transactions during the period	164,335,733	39,198,993
Net increase (decrease) in net assets resulting from operations	165,925,826	44,666,875
Distributions to shareholders from: Net investment income	(10,232,012)	(4,437,987)
Fund share transactions: Cost of shares repurchased	(1,696,069)	(1,336,968)
Cost of shares reacquired	-	(150,372)
Net increase (decrease) in net assets from Fund share transactions	(1,696,069)	(1,487,340)
Increase (decrease) in net assets	153,997,745	38,741,548
Net assets at beginning of period	292,551,030	253,809,482
Net assets at end of period (including accumulated distributions in excess of net investment income and undistributed net investment income of ($201,343) and $5,507,670, respectively)	**$ 446,548,775**	**$ 292,551,030**
Other Information		
Shares outstanding at beginning of period	16,337,688	16,450,120
Shares repurchased	(96,400)	(99,300)
Shares reacquired	-	(13,132)
Net increase (decrease) in Fund shares	(96,400)	(112,432)
Shares outstanding at end of period	16,241,288	16,337,688

The accompanying notes are an integral part of the financial statements.

Financial Highlights

Years Ended June 30,	2003[a]	2003	2002	2001	2000	1999[b]	1998[c]
Per Share Operating Performance							
Net asset value, beginning of period	**$ 17.91**	**$ 15.43**	**$ 19.63**	**$ 24.01**	**$ 17.03**	**$ 14.92**	**$ 26.42**
Income (loss) from investment operations:							
Net investment income (loss)[d]	.28	.50	.54	.67	.48	.26	.82

Net realized and unrealized gain (loss) on investment transactions	9.91	2.23	(4.02)	(4.13)	6.80	2.00	(9.30)
Total from investment operations	10.19	2.73	(3.48)	(3.46)	7.28	2.26	(8.48)
Less distributions from: Net investment income	(.63)	(.27)	(.53)	(.42)	(.30)	(.15)	(.75)
Net realized gains on investment transactions	-	-	(.19)	(.50)	-	-	(2.27)
Total distributions	(.63)	(.27)	(.72)	(.92)	(.30)	(.15)	(3.02)
Antidilution resulting from repurchase of shares at value	.02	.02	-	-	-	-	-
Net asset value, end of period	**$ 27.49**	**$ 17.91**	**$ 15.43**	**$ 19.63**	**$ 24.01**	**$ 17.03**	**$ 14.92**
Market value, end of period	**$ 23.95**	**$ 14.95**	**$ 12.75**	**$ 15.15**	**$ 17.13**	**$ 14.75**	**$ 10.88**
Total Return							
Per share net asset value (%)[e]	57.49**	18.37	(17.54)	(14.01)	43.28	15.48**	(25.42)
Per share market value (%)[e]	64.23**	19.64	(11.67)	(7.00)	17.99	37.22**	(31.61)
Ratios to Average Net Assets and Supplemental Data							
Net assets, end of period ($ millions)	447	293	254	323	395	280	243
Ratio of expenses (%)	1.50*	1.65	1.52	1.44	1.49	1.67*	1.56
Ratio of net investment income (loss) (%)	2.52*	3.60	3.04	3.03	2.42	3.47*	3.57
Portfolio turnover rate (%)	4*	5	3	8	14	4*	17

[a] *For the six months ended December 31, 2003.*

[b] *For the six months ended June 30, 1999. On May 26, 1999, the Fund changed the fiscal year end from December 31 to June 30.*

[c] *Year ended December 31.*

[d] *Based on average shares outstanding during the period.*

[e] *Total return based on net asset value reflects changes in the Fund's net asset value during the period. Total return based on market value reflects changes in market value. Each figure includes reinvestments of distributions. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.*

* *Annualized* ** *Not annualized*

Notes to Financial Statements

A. Significant Accounting Policies

The Brazil Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a closed-end, non-diversified management investment company organized as a Maryland corporation.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates. Actual results could differ from those estimates. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

Security Valuation. Investments are stated at value determined as of the close of regular trading on the New York Stock Exchange on each day the exchange is open for trading. Equity securities are valued at the most recent sale price reported on the exchange (US or foreign) or over-the-counter market on which the security is traded most extensively. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation.

Money market instruments purchased with an original or remaining maturity of sixty days or less, maturing at par, are valued at amortized cost. Investments in open-end investment companies and Scudder Cash Management QP Trust are valued at their net asset value each business day.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Directors.

Foreign Currency Translations. The books and records of the Fund are maintained in US dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into US dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into US dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the disposition of forward foreign currency exchange contracts and foreign currencies, and the difference between the amount of net investment income accrued and the US dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gains and losses on investment securities.

At December 31, 2003, the exchange rate for the Brazilian Real was US $0.3466 to 1 Real.

Taxes. The Fund's policy is to comply with the requirements of the Internal Revenue Code, as amended, which are applicable to regulated investment companies, and to distribute all of its taxable income to its shareholders. Accordingly, the Fund paid no federal income taxes and no federal income tax provision was required.

At June 30, 2003, the Fund had a net tax basis capital loss carryforward of approximately $3,394,000 which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until June 30, 2010 ($940,000) and June 30, 2011 ($2,454,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2002, through June 30, 2003 the Fund incurred approximately $2,494,000 of net realized capital losses. As permitted by tax regulations, the Fund intends to elect to defer these losses and treat them as arising in the fiscal year ending June 30, 2004.

The Fund may be subject to a 0.38% Contribuicao Provisoria sobre Movimentacao Financiera ("CPMF") tax which is applied to foreign exchange transactions representing capital inflows or outflows to the Brazilian market.

Distribution of Income and Gains. Distributions of net investment income, if any, are made annually. Net realized gains from investment transactions, in excess of available capital loss carryforwards, would be taxable to the Fund if not distributed, and, therefore, will be distributed to shareholders at least annually.

The timing and characterization of certain income and capital gains distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in foreign denominated securities and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

At June 30, 2003, the Fund's components of distributable earnings (accumulated losses) on a tax basis were as follows:

Undistributed ordinary income*	$ 5,535,093
Undistributed net long-term capital gains	$ -
Capital loss carryforwards	$ (3,394,000)
Net unrealized appreciation (depreciation) on investments	$ 105,505,412

In addition, the tax character of distributions paid to shareholders by the Fund is summarized as follows:

	Years Ended June 30,	
	2003	**2002**
Distributions from ordinary income*	$ 4,437,987	$ 8,711,604
Distributions from long-term capital gains	$ -	$ 3,040,843

** For tax purposes short-term capital gains distributions are considered ordinary income distributions.*

The tax character of the current year distributions, if any, will be determined at the end of the current fiscal year.

Other. Investment transactions are accounted for on a trade date plus one basis. However, for financial reporting purposes, investment security transactions are reported on trade date. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date net of foreign withholding taxes. Certain dividends from foreign securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends. Realized gains and losses from investment transactions are recorded on an identified cost basis.

B. Purchases and Sales of Securities

During the six months ended December 31, 2003, purchases and sales of investment securities (excluding short-term investments) aggregated $7,017,583 and $13,725,563, respectively.

C. Related Parties

Management Agreement. Under the Management Agreement with Deutsche Investment Management Americas Inc. ("DeIM" or the "Manager"), the Manager directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Manager determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund. In addition to portfolio management services, the Manager provides certain administrative services in accordance with the Management Agreement. The management fee payable monthly under the Management Agreement is equal to an annual rate of 1.20% of the first $150,000,000 of the Fund's average weekly net assets, 1.05% of the next $150,000,000 of such net assets, 1.00% of the next $200,000,000 of such net assets and 0.90% of such net assets in excess of $500,000,000. Accordingly, for the six months ended December 31, 2003, the fee pursuant to the Management Agreement was equivalent to an annualized effective rate of 1.09% of the Fund's average weekly net assets.

The Fund and the Manager have an Administration Agreement with BankBoston Banco Multiplo S.A. ("BankBoston Banco"), pursuant to which BankBoston Banco acts as the Fund's Brazilian Administrator. The Fund has agreed to pay BankBoston Banco, for services rendered, an annual fee payable quarterly in Brazilian currency equal to $50,000 per year plus out-of-pocket expenses. For the six months ended December 31, 2003, the Administrator's Fee amounted to $25,000 of which $12,500 is unpaid at December 31, 2003.

Service Provider Fees.

Scudder Investments Service Company ("SISC"), an affiliate of the Manager, is the transfer, dividend-paying and shareholder service agent for the Fund. Pursuant to a sub-transfer agency agreement between SISC and DST Systems, Inc. ("DST"), SISC has delegated certain transfer agent and dividend paying agent functions to DST. SISC compensates DST out of the shareholder servicing fee it receives from the Fund. For the six months ended December 31, 2003, the amount charged to the Fund by SISC aggregated $8,100, of which $5,400 is unpaid at December 31, 2003.

Scudder Service Corporation ("SSC"), a subsidiary of the Manager, is the shareholder service communications agent of the Fund. For the six months ended December 31, 2003, the amount charged to the Fund by SSC aggregated $7,500 of which $4,500 is unpaid at December 31, 2003.

Scudder Fund Accounting Corporation ("SFAC"), also a subsidiary of the Manager, is responsible for determining the daily net asset value per share and maintaining the portfolio and general accounting records of the Fund. Pursuant to a sub-accounting agreement between SFAC and State Street Bank and Trust Company ("SSB"), SFAC has delegated all accounting functions to SSB. SFAC compensates SSB out of the accounting fee it receives from the Fund. For the six months ended December 31, 2003, the amount charged to the Fund by SFAC aggregated $92,379, of which $12,602 is unpaid at December 31, 2003.

Directors' Fees and Expenses. The Fund pays each Director not affiliated with the Manager retainer fees plus specified amounts for attended board and committee meetings.

Scudder Cash Management QP Trust. Pursuant to an Exemptive Order issued by the SEC, the Fund may invest in the Scudder Cash Management QP Trust (the "QP Trust"), and other affiliated funds managed by the Manager. The QP Trust seeks to provide as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. The QP Trust does not pay the Manager a management fee for the affiliated funds' investments in the QP Trust.

D. Foreign Investment and Exchange Controls in Brazil

Investing in Brazil may involve considerations not typically associated with investing in securities issued by domestic companies, such as more volatile prices and less liquid securities.

The Brazilian Government has exercised and continues to exercise substantial influence over many aspects of the private sector by legislation and regulation, including regulation of prices and wages.

Brazilian law imposes certain limitations and controls which generally affect foreign investors in Brazil. The Fund has obtained from the Brazilian Securities Commission authorization, subject to certain restrictions, to invest in Brazilian securities. Under current Brazilian law, the Fund may repatriate income received from dividends and interest earned on, and net realized capital gains from, its investments in Brazilian securities. Under its authorization, the Fund may also repatriate capital, but only to the extent necessary to distribute income and capital gains (as computed for US federal income tax purposes), to pay expenses incurred outside of Brazil, to repay borrowings made for temporary or emergency purposes and in connection with the termination of the Fund (provided that the Fund's dissolution has been approved by shareholders of at least two-thirds of the Fund's outstanding shares). Under current Brazilian law, whenever there occurs a serious imbalance in Brazil's balance of payments or serious reasons to foresee the imminence of such an imbalance, Brazil's National Monetary Council may, for a limited period, impose restrictions on foreign capital remittances abroad. Exchange control regulations, which may restrict repatriation of investment income, capital or the proceeds of securities sales by foreign investors, may limit the Fund's ability to make sufficient distributions, within applicable time periods, to qualify for the favorable US tax treatment afforded to regulated investment companies.

The Fund is unable to predict whether further economic reforms or modifications to the existing policies by the Brazilian Government may adversely affect the liquidity of the Brazilian stock market in the future.

E. Ownership of the Fund

At December 31, 2003, The President and Fellows of Harvard College held approximately 25% of the outstanding shares of the Fund.

F. Line of Credit

The Fund and several other affiliated Funds (the "Participants") share in a $1.25 billion revolving credit facility administered by J.P. Morgan Chase Bank for temporary or emergency purposes that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated pro rata based on net assets among each of the Participants. Interest is calculated at the Federal Funds Rate plus 0.5 percent. The Fund may borrow up to a maximum of 5.0 percent of its net assets under the agreement.

G. Common Stock

Shares issued in fiscal 2002 for the Dividend Reinvestment Plan were reacquired in the open market and retired in fiscal 2003.

H. Share Repurchases

The Fund has a share repurchase plan to effect periodic repurchases of its shares in the open market from time to time when the Fund's shares trade at a discount to their net asset value per share. During the six months ended December 31, 2003 and the year ended June 30, 2003, the Fund purchased 96,400 and 99,300 shares of common stock on the open market at a total cost of $1,696,069 and $1,336,968, respectively. The average discount of these purchases, comparing the purchase price to the net asset value at the time of purchases, was 15.7% and 15.9%, respectively. These shares are held in treasury.

Report of Independent Auditors

To the Board of Directors and the Shareholders of The Brazil Fund, Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Brazil Fund, Inc. (the "Fund") at December 31, 2003, and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated therein, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2003, by correspondence with the custodian, provide a reasonable basis for our opinion.

Boston, Massachusetts February 25, 2004	PricewaterhouseCoopers LLP

Dividend Reinvestment and Cash Purchase Plan

The Plan

The fund's Dividend Reinvestment and Cash Purchase Plan (the "Plan") offers you an automatic way to reinvest your dividends and capital gain distributions in shares of the fund. The Plan also provides for cash investments in fund shares of $100 to $3,000 semiannually through Scudder Investments Service Company or its delegate (the "Transfer Agent") and UMB Bank, N.A. (the "Plan Agent"). The Transfer Agent provides record keeping services for participants in the Plan. If you would like a copy of the Plan, please call the Transfer Agent at 1-800-294-4366.

Automatic Participation

Each stockholder of record is automatically a participant in the Plan unless the stockholder has instructed the Transfer Agent in writing otherwise. Such a notice must be received by the Transfer Agent not less than 10 days prior to the record date for a dividend or distribution in order to be effective with respect to that dividend or distribution. A notice which is not received by that time will be effective only with respect to subsequent dividends and distributions.

Stockholders who do not participate in the Plan will receive all distributions in cash paid by check in dollars mailed directly to the stockholder by the Transfer Agent, as dividend paying agent.

Shares Held by a Nominee

If your shares are held in the name of a brokerage firm, bank, or other nominee as the stockholder of record, please consult your nominee (or any successor nominee) to determine whether it is participating in the Plan on your behalf. Many nominees are generally authorized to receive cash dividends unless they are specifically instructed by a client to reinvest. If you would like your nominee to participate in the Plan on your behalf, you should give your nominee instructions to that effect as soon as possible.

Pricing of Dividends and Distributions

If the market price per share on the payment date for the dividend or distribution (the "Valuation Date") equals or exceeds net asset value per share on that date, the fund will issue (i) shares of the fund's common stock that are issued but not outstanding ("Treasury Stock") to the extent shares of Treasury Stock are available, and then (ii) to the extent shares of Treasury Stock are not available, newly issued shares of the fund's common stock to participants at the greater of the following on the Valuation Date: (a) net asset value or (b) 95% of the market price. The Valuation Date will be the dividend or distribution payment date or, if that date is not a New York Stock Exchange trading date, the next preceding trading date. If the net asset value exceeds the market price of fund shares at such time, the Plan Agent will use the dividend or distribution (less each participant's pro rata share of brokerage commissions) to buy fund shares in the open market for the participants' account. Such purchases will be made on or shortly after the payment date for such dividend or distribution, and in no event more than 45 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with federal securities law. In either case, for federal income tax purposes, the stockholder receives a distribution equal to the market value on the Valuation Date of new shares issued. State and local taxes may also apply. If the fund should declare an income dividend or net capital gain distribution payable only in cash, the Plan Agent will, as agent for the participants, buy fund shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' account on, or shortly after, the payment date.

Voluntary Cash Purchases

Participants in the Plan have the option of making additional cash payments to the Transfer Agent, semiannually, in any amount from $100 to $3,000, for investment in the fund's shares. The Plan Agent will use all such monies received from participants to purchase fund shares in the open market on or about February 15 and August 15. Any voluntary cash payments received more than 30 days prior to these dates will be returned by the Transfer Agent, and interest will not be paid on any uninvested cash payments. To avoid unnecessary cash accumulations, and also to allow ample time for receipt and processing by the Transfer Agent, it is suggested that participants send in voluntary cash payments to be received by the Transfer Agent approximately ten days before February 15, or August 15, as the case may be. A participant may withdraw a voluntary cash payment by written notice, if the notice is received by the Transfer Agent not less than 48 hours before such payment is to be invested.

Participant Plan Accounts

The Transfer Agent maintains all participant accounts in the Plan and furnishes written confirmation of all transactions in the account, including information needed by participants for personal and tax records. Shares in the account of each plan participant will be held by the Transfer Agent in non-certificated form in the name of the participant, and each participant will be able to vote those shares purchased pursuant to the Plan at a stockholder meeting or by proxy.

No Service Fee to Reinvest

There is no service fee charged to participants for reinvesting dividends or distributions from net realized capital gains. The Plan Agent's and/or Transfer Agent's fees for the handling of the reinvestment of dividends and capital gain distributions will be paid by the fund. There will be no brokerage commissions with respect to shares issued directly by the fund as a result of dividends or capital gain distributions payable either in stock or in cash. However, participants will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of any dividends or capital gain distributions.

Costs for Cash Purchases

With respect to purchases of fund shares from voluntary cash payments, each participant will be charged $1.00 for each such purchase. Each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases of fund shares in connection with voluntary cash payments made by the participant.

Brokerage charges for purchasing small amounts of stock for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, because the Plan Agent will be purchasing stock for all participants in blocks and pro-rating the lower commission thus attainable.

Amendment or Termination

The fund reserves the right to terminate the Plan. Notice of the termination will be sent to the participants of the Plan at least 30 days before the record date for a dividend or distribution. The Plan also may be amended by the fund, but (except when necessary or appropriate to comply with applicable law, rules or policies of a regulatory authority) only by giving at least 30 days' written notice to participants in the Plan.

A participant may terminate his account under the Plan by written notice to the Transfer Agent. If the written notice is received 10 days before the record day of any distributNT>

2013

2014

2013

Net product sales

$16,202 $21,411 $31,037 $46,608

Net service revenues

5,825 2,984 13,011 5,408

Total net revenues

22,027 24,395 44,048 52,016

Cost of products sold

14,184 17,555 26,634 39,149

Cost of services

3,596 2,160 8,951 4,274

Total cost of revenues

17,780 19,715 35,585 43,423

Gross profit

4,247 4,680 8,463 8,593

Selling and administrative expenses:

Selling

1,559 870 3,104 1,736

Administrative

2,822 2,453 6,715 4,954

Total selling and administrative expenses

4,381 3,323 9,819 6,690

Gain on the sale/disposal/transfer of assets

2 3 8 4

Income (loss) from operations

(132

)

1,360 (1,348

)

1,907

Equity income (loss) of joint venture

— (12

)

95 (118)

Other income (expense):

Interest income

182 13 359 35

Interest expense

(18

)

(12

)

(27

)

(19

)

Other income (expense), net

(123

)

247 86 496

Total other income (expense)

41 248 418 512

Earnings (loss) before income taxes

(91

)

1,596 (835

)

2,301

Income tax benefit (expense)

472 (319

)

622 (460

)

Net earnings (loss)

$381 $1,277 $(213

)

$1,841

Basic earnings (loss) per share

$0.03 $0.09 $(0.02

)

$0.13

Diluted earnings (loss) per share

$0.03 $0.09 $(0.02

)

$0.13

Weighted average shares outstanding:

Basic

14,060 13,997 14,043 13,988

Diluted

14,106 14,045 14,043 14,035

See accompanying notes to condensed consolidated financial statements.

4

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

Three and Six Months Ended June 30, 2014 and 2013

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net earnings (losses)	$381	$1,277	$(213)	$1,841
Currency translation adjustment:				
Unrealized net change arising during period	627	(690)	(403)	(1,091)
Other comprehensive gain (loss)	627	(690)	(403)	(1,091)
Comprehensive income (loss)	$1,008	$587	$(616)	$750

See accompanying notes to condensed consolidated financial statements.

5

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2014 and 2013

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net earnings (loss)	$(213)	$1,841
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for doubtful accounts	(17)	211
Provision for obsolete inventory	(39)	10
Provision for warranty	(195)	260
Depreciation and amortization	813	681
Equity in (income) loss of joint venture	(95)	118
Loss on forward contracts	145	188
(Gain) loss on disposal or transfer of assets	(8)	5
Deferred income taxes	(400)	197
Share-based compensation expense	200	220
Changes in operating assets and liabilities:		
Accounts, unbilled and notes receivable	5,977	12,540
Inventories	818	(2,339)
Other current assets	98	1,508
Accounts payable	(3,781)	(7,778)
Accrued expenses	(1,618)	(1,095)
Customer deposits/deferred revenue	(353)	(1,283)
Current income taxes	(2,382)	331
Other assets	(90)	56
Net cash (used in) provided by operating activities	(1,140)	5,671
Cash Flows from investing activities:		
Capital expenditures	(536)	(197)
Proceeds from sale of assets	56	2
Net cash used in investing activities	(480)	(195)
Cash flows from financing activities:		
Excess tax benefits from share-based arrangements	(6)	(11)
Proceeds from employee stock purchase plan	—	3
Net cash used in financing activities	(6)	(8)

Effect of exchange rate changes on cash and cash equivalents	(262)	(515)
Net increase (decrease) in cash and cash equivalents	(1,888)	4,953
Cash and cash equivalents at beginning of period	28,791	40,168
Cash and cash equivalents at end of period	$26,903	$45,121

See accompanying notes to condensed consolidated financial statements.

6

Ballantyne Strong, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Ballantyne Strong, Inc. ("Ballantyne" or the "Company"), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Peintures Elite, Inc. ("Peintures"), Strong Westrex (Beijing) Trading Inc., Convergent Corporation and Convergent Media Systems Corporation ("CMS") designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens and lighting products; and provides managed services including monitoring of networked equipment to our customers. As of January 1, 2014 the legal entity Peintures Elite, Inc. was dissolved and consolidated into Strong/MDI Screen Systems, Inc.

The Company's products are distributed to the retail, financial, government and cinema markets throughout the world.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all majority owned and controlled domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report 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 Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year-ended December 31, 2013.

The condensed consolidated balance sheet as of December 31, 2013 was derived from the Company’s audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, 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.

Acquisitions

On September 13, 2013, the Company acquired Peintures Elite, Inc., a manufacturer of paint and lacquer products and the primary provider of paint used in the Company’s screen manufacturing. On October 1, 2013, the Company acquired CMS to provide digital technologies for out-of-home messaging, advertising and communication (the DOOH market) and Enterprise Video Solutions (“EVS”), which provides enterprises with the infrastructure necessary for communications, collaboration, training and education of employees.

The condensed consolidated financial statements as of December 31, 2013, June 30, 2014 and for the three and six month periods ended June 30, 2014, include amounts acquired from, as well as the results of operations of Peintures and CMS. Peintures is included in the systems integration segment and CMS is included in the managed services segment.

Reclassifications

Certain prior year amounts presented in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. These reclassifications did not impact the Company’s net income (loss) for 2014 or 2013.

Use of Management Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

7

Fair Value of Financial and Derivative Instruments

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - inputs to the valuation techniques are quoted prices in active markets for identical assets or liabilities
Level 2 - inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
Level 3 - inputs to the valuation techniques are unobservable for the assets or liabilities

The following table presents the Company's financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall.

Fair Values Measured on a Recurring Basis at June 30, 2014:

	Level 1	**Level 2**	**Level 3**	**Total**
	$ in thousands			
Cash and cash equivalents	$26,903	$ —	$—	$26,903
Note Receivable	$—	$ —	$2,730	$2,730
Foreign exchange forward contract asset	$—	$ —	$—	$—
Foreign exchange forward contract liability	$—	$ —	$—	$—

Fair Values Measured on a Recurring Basis at December 31, 2013:

	Level 1	**Level 2**	**Level 3**	**Total**
	$ in thousands			
Cash and cash equivalents	$28,791	$—	$—	$28,791
Note Receivable	$—	$—	$2,497	$2,497
Foreign exchange forward contract asset	$—	$10,934	$—	$10,934
Foreign exchange forward contract liability	$—	$(11,000)	$—	$(11,000)

The notes receivable accrues interest at a rate of 15% per annum which is paid in accordance with an agreed-upon cash flow schedule.

Quantitative information about the Company's level 3 fair value measurements at June 30, 2014 is set forth below:

$ in thousands	Fair Value at 6/30/2014	Valuation Technique	Unobservable input	Range	
			Probability of default	0	%
Note Receivable	$ 2,730	Discounted cash flow	Prepayment rates	0	%
			Loss severity	0	%

The significant unobservable inputs used in the fair value measurement of the Company's note receivable are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and directionally opposite change in the assumption used for prepayment rates.

The following table reconciles the beginning and ending balance of the Company's Note Receivable fair value:

	Six months ended June 30	
	2014	2013
	$ in thousands	
Note Receivable balance, beginning of period	$2,497	$2,232
Interest income accrued	233	—
Note Receivable balance, end of period	$2,730	$2,232

The carrying values of all other financial assets and liabilities including accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the six months ended June 30, 2014 we did not have any significant non-recurring measurements of non-financial assets or liabilities.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance is effective for the Company beginning January 1, 2017 and may be adopted using a full retrospective or a modified cumulative effect approach. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

3. Earnings (Loss) Per Common Share

Basic earnings (loss) per share have been computed on the basis of the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share has been computed on the basis of the weighted average number of shares of common stock outstanding after giving effect to potential common shares from dilutive stock options and certain non-vested shares of restricted stock. The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
(In thousands, except per share data)				
Basic earnings per share:				
Earnings (loss) applicable to common stock	$381	$1,277	$(213)	$1,841
Basic weighted average common shares outstanding	14,060	13,997	14,043	13,988
Basic earnings (loss) per share	$0.03	$0.09	$(0.02)	$0.13
Diluted earnings per share:				
Earnings (loss) applicable to common stock	$381	$1,277	$(213)	$1,841
Basic weighted average common shares outstanding	14,060	13,997	14,043	13,988
Dilutive effect of stock options and restricted stock awards	46	48	—	47
Dilutive weighted average common shares outstanding	14,106	14,045	14,043	14,035
Diluted earnings (loss) per share	$0.03	$0.09	$(0.02)	$0.13

For the three and six month periods ended June 30, 2014, options to purchase 211,500 shares of common stock were outstanding but were not included in the computation of diluted earnings per share as the option’s exercise price was greater than the average market price of the common shares for the respective periods. An additional 64,553 options were excluded from the six month period ended June 30, 2014 as their inclusion would be anti-dilutive, thereby decreasing the net loss per share. For the three and six month periods ended June 30, 2013, options to purchase 253,500 and 255,700 shares of common stock were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods.

4. Warranty Reserves

Historically, the Company has generally granted a warranty to its customers for a one-year period following the sale of manufactured film projection equipment and on selected repaired equipment for a one-year period. In most instances, the digital products are covered by the manufacturing firm's OEM warranty; however, there are certain customers where the Company may grant warranties in excess of the manufacturer's warranty for digital products. The Company accrues for these costs at the time of sale or repair. The following table summarizes warranty activity for the three and six months ended June 30 2014 and 2013:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
(In thousands)				
Warranty accrual at beginning of period	$544	$760	$662	$770
Charged to expense	51	133	87	189
Amounts written off, net of recoveries	(139)	(48)	(288)	(116)
Foreign currency adjustment	—	6	(5)	8
Warranty accrual at end of period	$456	$851	$456	$851

9

5. Digital Link II Joint Venture

On March 6, 2007, the Company entered into an agreement with RealD to form an operating entity Digital Link II, LLC (the “LLC”). Under the agreement, the LLC was formed with the Company and RealD as the only two members with membership interests of 44.4% and 55.6%, respectively. The LLC was formed for purposes of commercializing certain 3D technology and to fund the deployment of digital projector systems and servers to exhibitors.

The Company accounts for its investment by the equity method. Under this method, the Company recorded its proportionate share of LLC net income or loss based on the LLC’s financial statements as of June 30, 2014 and June 21, 2013, respectively. The LLC uses four 13-week periods for a total of 52 weeks to align its fiscal year-end with that of its majority interest holder, RealD. The Company’s portion of income of the LLC was $0 and $0.1 million for the three and six months ended June 30, 2014. The Company’s portion of income (loss) of the LLC was ($0.01) million and ($0.1) million for the three and six months ended June 30, 2013, respectively.

In the past, the Company sold digital theatre projection equipment, in the normal course of business, to the LLC. The LLC in turn provides and sells the digital projection equipment to third party customers under system use agreements or through sales agreements. Revenue recognized by the Company on the sale transaction to the LLC is limited by its 44.4% ownership in the joint venture which will be recognized upon sale of the equipment to the third parties. There were no sales to the LLC during the three and six months ended June 30, 2014 and 2013. The total receivable balance due from the LLC was insignificant at June 30, 2014 and December 31, 2013.

The Company received no distributions from the LLC in six months ended June 30, 2014 or June 30, 2013.

6. Intangible Assets

Intangible assets consisted of the following at June 30, 2014:

	Useful life	Gross	Accumulated amortization	Net
	(Years)	(in thousands)		
Intangible assets subject to amortization:				
Customer relationships	4-9	$1,662	$ (1,622)	$40
Trademarks	3	229	(229)	—
Software	3	234	(70)	164
Software in development	3	266	—	266

Product Formulation	10	572	(105)	467
Total		$2,963	$ (2,026)	$937

Intangible assets consisted of the following at December 31, 2013:

	Useful life	**Gross**	**Accumulated amortization**	**Net**
	(Years)	(in thousands)		
Intangible assets subject to amortization:				
Customer relationships	4-9	$1,662	$ (1,600)	$62
Trademarks	3	229	(229)	—
Software	3	234	(24)	210
Software in development	3	92	—	92
Product Formulation	10	573	(42)	531
Total		$2,790	$ (1,895)	$895

The Company recorded amortization expense relating to other identifiable intangible assets of $0.1 million and $0.02 million for the six months ended June 30, 2014 and 2013, respectively.

The following table shows the Company's estimated future amortization expense related to intangible assets for the next five years.

	Amount (in thousands)
2014	$ 118
2015	169
2016	113
2017	91
2018	72
2019	106

10

7. Goodwill

The following represents a summary of changes in the Company’s carrying amount of goodwill for the quarter ended June 30, 2014:

	(in thousands)
Balance as of December 31, 2013	$ 1,123
Foreign currency translation	(4)
Balance as of June 30, 2014	$ 1,119

8. Restructuring Activities

In connection with the integration of the 2013 CMS acquisition, as well as the Company’s ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the fourth quarter of 2013 to reduce headcount and move the Company’s warehouse from Omaha, Nebraska to Georgia. The Company recorded $1.4 million in severance costs it expects to incur in relation to the integration. Additionally, $0.06 million in costs were recorded for site closure of the Omaha warehouse. The restructuring initiative is expected to be completed by the first quarter of 2015.

The following table reconciles the beginning and ending restructuring balance for the six months ended June 30, 2014, which is included in accrued expenses:

	(in thousands)
Accrued liability at beginning of period	$ 896
Severance paid	(257)
Site closure costs paid	(58)
Accrued liability at end of period	$ 581

9. Debt

The Company is a party to a $20 million Revolving Credit Agreement and Note (collectively, the “Credit Agreement”) with Wells Fargo Bank, N.A. (“Wells Fargo”). The Company may request an increase in the Credit Agreement of up to an additional $5 million; however, any advances on the additional $5 million are subject to approval of Wells Fargo. The borrowings from the Credit Agreement are to be used for working capital purposes and for other general corporate purposes. The Company’s accounts receivable, general intangibles and inventory secure the Credit Agreement.

The Credit Agreement contains certain covenants, including those relating to our financial condition. The primary financial condition covenants pertain to maintaining a ratio of total liabilities to tangible net worth of less than 2 to 1, working capital of $20 million and beginning December 31, 2014 net income before taxes of $1 on a rolling 4-quarter basis, as defined in the Credit Agreement. Other covenants pertain to items such as certain limits on incurring additional debt or lease obligations, certain limits on issuing guarantees and certain limits on loans, advances and investments with third parties. Upon the occurrence of any event of default specified in the Credit Agreement, including a change in control of the Company (as defined in the Credit Agreement), all amounts due there under may be declared to be immediately due and payable.

The Credit Agreement expires June 30, 2015 at which time all unpaid principal and interest is due. Since inception of the agreement, no amounts have been borrowed on the Credit Agreement. At June 30, 2014, the Company had availability of $20 million.

10. Income Taxes

The effective tax rate (calculated as a ratio of income tax expense/benefit to pretax earnings, inclusive of equity method investment losses) was approximately 518.7% and 74.5% for the three and six months ended June 30, 2014, respectively as compared to 20.0% for the three and six months ended June 30, 2013, respectively. The effective tax rate differs from the statutory rates primarily as a result of differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The Company’s effective rate was higher in the three and six months ended June 30, 2014 compared to the comparable periods of 2013 due to the generated tax benefits from U.S. operating losses at significantly higher rates more than offsetting the tax expense related to our Canadian operations, Strong/MDI Screen Systems, Inc., which has a lower tax rate.

The Company’s uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The Company has examinations not yet initiated for Federal purposes for fiscal years 2009 through 2010 and 2012. In most cases, the Company has examinations open for State or local jurisdictions based on the particular jurisdiction’s statute of limitations. The Company does not currently have any state or local examinations in process. As of June 30, 2014, total unrecognized tax benefits amounted to approximately $0.03 million.

11. Stock Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values. Share-based compensation expense included in selling and administrative expenses approximated $0.1 million and $0.2 million for the three and six months ended June 30, 2014 and 2013, respectively.

2	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Share based compensation expense	$99	$120)	$200	$220

Long-Term Incentive Plan

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, or performance units. Vesting terms vary with each grant and may be subject to vesting upon a "change in control" of the Company. On May 14, 2014, the Company's stockholders approved an amendment to the 2010 Plan to increase the number of shares of common stock that are available for issuance under the Plan from 600,000 to 1,600,000 shares.

Options

The following table summarizes the Company's activities with respect to its stock options for the six months ended June 30, 2014 as follows:

	Number of Options	Weighted Average Exercise Price Per	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value

		Share		(in thousands)
Outstanding at December 31, 2013	213,700	$ 5.42	7.84	$ 26
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at June 30, 2014	213,700	$ 5.42	7.34	$ 14
Exercisable at June 30, 2014	129,200	$ 6.02	7.10	$ 5

The aggregate intrinsic value in the table above represents the total that would have been received by the option holders if all in-the-money options had been exercised and sold on June 30, 2014.

As of June 30, 2014, the total unrecognized compensation cost related to stock option awards was approximately $0.2 million which is expected to be recognized over a weighted average period of 1.5 years.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2014:

	Options Outstanding at June 30, 2014			**Options Exercisable at June 30, 2014**		
Range of option exercise price	**Number of options**	**Weighted average remaining contractual life**	**Weighted average exercise price per option**	**Number of options**	**Weighted average remaining contractual life**	**Weighted average exercise price per option**
$3.55 to 8.32	213,700	7.34	$ 5.42	129,200	7.10	$ 6.02

Restricted Stock Plans

The Ballantyne Strong, Inc. 2014 Non-Employee Directors' Restricted Stock Plan (the "Non-Employee Plan") provides for the award of restricted shares to outside directors. A total of 200,000 shares are reserved for issuance under the Non-Employee Plan. During the six months ended June 30, 2014, the Company granted 41,760 restricted shares under the Non-Employee Plan to the Board of Directors. These shares will vest the day preceding the Company's 2015 Annual Meeting of Stockholders.

In connection with the restricted stock granted to certain employees and non-employee directors, the Company accrues compensation expense based on the estimated number of shares expected to be issued utilizing the most current information available to the Company at the date of the financial statements. The Company estimates the fair value of restricted stock awards based upon the market price of the underlying common stock on the date of grant.

12

As of June 30, 2014, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately $0.4 million which is expected to be recognized over a weighted average period of 1.5 years.

The following table summarizes restricted stock activity for the six months ended June 30, 2014:

	Number of Restricted Stock Shares	**Weighted Average Grant Price Fair Value**
Non-vested at December 31, 2013	129,500	$ 4.42
Granted	41,760	4.31
Shares vested	(68,167)	4.54
Shares forfeited	—	—
Non-vested at June 30, 2014	103,093	$ 4.29

12. Foreign Exchange Contracts

The Company's primary exposure to foreign currency fluctuations pertains to its subsidiaries in Canada and China. In certain instances the Company may enter into foreign exchange forward contracts to manage a portion of this risk. The Company has not designated its foreign exchange forward contracts as hedges.

The following table presents the gross fair value of derivative instruments, all of which are not designated as hedging instruments:

		Asset Derivatives	
(in thousands)	**Classification**	**June 30, 2014**	**December 31, 2013**
Foreign exchange forward contracts	Other current assets	$ —	$ 10,934

Liability Derivatives

(in thousands)	Classification	June 30, 2014	December 31, 2013
Foreign exchange forward contracts	Other current liabilities	$ —	$ 11,000

All cash flows related to our foreign currency exchange contracts are classified as operating cash flows. We recognized in other income, the following realized and unrealized gains from foreign currency forward exchange contracts:

		Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	Classification	2014	2013	2014	2013
Foreign exchange forward contracts	Other Income (Loss)	$203	$(188)	$(145)	$(188)

13. Commitments, Contingencies and Concentrations

Concentrations

The Company's top ten customers accounted for approximately 45.5% and 43.1% of total consolidated net revenues for the three and six months ended June 30, 2014, respectively. Trade accounts receivable from these customers represented approximately 33.7% of net consolidated receivables at June 30, 2014. 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 and services.

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.

Leases

The Company and its subsidiaries lease plant and office facilities, furniture, autos and equipment under operating leases expiring through 2023. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business.

13

The Company's future minimum lease payments for operating leases are as follows:

	Payments due by period ($ in thousands)						
	Total	Remainder 2014	2015	2016	2017	2018	Thereafter
Operating leases	$4,272	$467	$662	$530	$483	$450	$ 1,680

14. Business Segment Information

During the fourth quarter of 2013, the Company revised its operating segments, which are organized based on the business leadership views operating the business after the integration of the acquired entities. All prior year segment data has been restated to conform to the new segments. As of June 30, 2014, the Company's operations were conducted through two business segments: Systems Integration and Managed Services. Systems Integration operations include the sale of digital projection equipment, screens, sound systems in addition to the design, assembly and sale of followspots and other lighting products. Managed Services operations include the delivery of end to end digital signage solutions, video communication solutions, content creation and management and service of digital signage and digital cinema equipment. The Company allocates resources to business segments and evaluates the performance of these segments based upon reported segment operating profit. The Company records intersegment sales at costs approximating market and has eliminated all significant intercompany sales in consolidation.

Summary by Business Segments

(In thousands)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net revenue				
Systems Integration	$14,755	$21,495	$28,775	$46,992
Managed Services	7,575	3,276	15,973	5,762
Total segment revenue	22,330	24,771	44,748	52,754
Eliminations	(303)	(376)	(700)	(738)
Total net revenue	$22,027	$24,395	$44,048	$52,016
Operating Income (Loss)				
Systems Integration	$1,676	$2,101	$2,506	$4,225
Managed Services	(70)	719	403	743
Total segment operating income	1,606	2,820	2,909	4,968
Unallocated general and administrative expenses	(1,740)	(1,463)	(4,265)	(3,065)

Interest, net	164	1	332	16
Gain on sale of assets	2	3	8	4
Equity income (loss) of joint venture	—	(12)	95	(118)
Other income (loss)	(123)	247	86	496
Income (loss) before income taxes	$(91)	$1,596	$(835)	$2,301

(In thousands)	June 30, 2014	December 31, 2013
Identifiable assets		
Systems Integration	$65,663	$ 67,839
Managed Services	23,040	27,605
Total	$88,703	$ 95,444

Summary by Geographical Area

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2014	2013	2014	2013
Net revenue				
United States	$15,031	$18,649	$30,199	$36,224
China	2,685	3,264	6,011	6,447
Latin America	1,583	483	3,133	6,450
Canada	1,432	1,000	2,890	1,506
Mexico	970	318	1,282	436
Europe	162	249	343	322
Asia (excluding China)	132	202	157	366
Other	32	230	33	265
Total	$22,027	$24,395	$44,048	$52,016

(In thousands)	**June 30, 2014**	**December 31, 2013**
Identifiable assets		
United States	$61,283	$ 51,882
Canada	16,084	28,463
China	7,331	5,526
Asia (excluding China)	4,005	9,573
Total	$88,703	$ 95,444

Intersegment sales have been recorded at amounts approximating market. Identifiable assets by geographical area are based on location of facilities. Net sales by geographical area are based on destination of sales.

15

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. Management's discussion and analysis contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical are forward-looking and reflect expectations for future Company performance. For these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve a number of risks and uncertainties, including but not limited to those discussed in the "Risk Factors" section contained in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Given the risks and uncertainties, readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described herein, as well as others not now anticipated. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Overview

The Company designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens and lighting products; and provides managed services including monitoring of networked equipment to our customers. We add value through our design, engineering, manufacturing excellence and customer service. We focus on the retail, financial, government and cinema markets. We have two primary operating segments: Systems Integration and Managed Services. The Systems Integration Segment provides a full range of product solutions primarily for the theatre exhibition industry including a wide spectrum of premier audio-visual products and accessories such as digital projectors, state of the art projection screens, servers, library management systems, and audio systems. We also sell lighting solutions for the architectural and entertainment lighting industry. The Managed Service Segment delivers solutions and services across two primary markets: digital out-of-home and cinema. These markets are served through the capabilities the Company has gained from the acquisition of Convergent in 2013 and from Strong Technical Services ("STS") respectively. While there is digital signage equipment sold within this segment, the primary focus of this segment is providing solutions and services to our customers.

Our segments were determined based on the manner in which management organizes segments for making operating decisions and assessing performance. Approximately 65% of revenues for the first six months of 2014 were from systems integration and approximately 35% were from managed services. Additional information related to our reporting segments can be found in the notes to the consolidated financial statements.

On September 13, 2013, the Company acquired Peintures Elite, Inc., a manufacturer of paint and lacquer products and the primary provider of paint used in the Company's screen manufacturing. On October 1, 2013, the Company acquired CMS to provide digital technologies for out-of-home messaging, advertising and communication (the DOOH market) and EVS, which provides enterprises with the infrastructure necessary for communications, collaboration, training and education of employees. The condensed consolidated financial statements as of December 31, 2013, June 30, 2014, and for the three-month period ended June 30, 2014, include amounts acquired from, as well as the results of operations of Peintures and CMS. Peintures is included in the systems integration segment and CMS is included in the managed services segment.

Results of Operations:

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Revenues

Net revenues during the three months ended June 30, 2014 decreased 9.7% to $22.0 million from $24.4 million during the three months ended June 30, 2013.

	Three Months Ended June 30,	
	2014	**2013**
	(In thousands)	
Systems Integration	$14,755	$21,495
Managed Services	7,575	3,276
Total segment revenues	22,330	24,771
Eliminations	(303)	(376)
Total net revenues	$22,027	$24,395

16

Systems Integration

Sales of systems integration products and services decreased 31.4% to $14.8 million in 2014 from $21.5 million in 2013. Sales of digital and analog cinema products and services decreased by $4.5 million as the industry changes to digital projection equipment continues to wind down as expected. In addition sales of lighting products decreased by $2.5 million. This decrease was driven by the completion of the World Trade Center project in 2013.

Managed Services

Sales of managed services products and services increased 131.2% to $7.6 million in 2014 from $3.3 million in 2013. Sales of products and services related to digital signage were $4.1 million in 2014 resulting from the October 2013 acquisition of Convergent. These sales were driven through the distribution of digital signage equipment as well as content creation, management and distribution. This was in addition to a $0.7 million increase in digital cinema service driven by non-recurring demand revenue and increased Network Operations Center (“NOC”) contracts.

Export Revenues

Sales outside the United States (mainly systems integration sales) increased to $7.0 million in the second quarter of 2014 from $5.7 million a year ago resulting primarily from increased sales in Latin America and Mexico partially offset by decreased sales in China. Export sales are sensitive to the timing of the digital cinema conversions in these countries and normal replacement cycles. Export sales are sensitive to worldwide economic and political conditions that lead to volatility. Certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit decreased 9.3% to $4.2 million in the second quarter of 2014 from $4.7 million a year-ago, but increased as a percent of total revenue to 19.3% from 19.2% in 2013. Gross profit in the systems integration segment decreased to $3.0 million in the second quarter of 2014 from $3.6 million in 2013 and increased as a percentage of sales to 20.2% in 2014 from 16.7% a year-ago. The decrease in gross margin dollars was driven by lower volume, but the increase in gross margin as a percentage of sales was driven by product mix.

The gross profit in the managed services segment amounted to $1.3 million or 16.7% as a percentage of revenues in the second quarter of 2014 compared to $1.1 million or 33.3% as a percentage of revenues a year ago. The increase in gross margin was driven by higher revenues through the acquisition of CMS, but the decrease in gross margin as a percentage of sales was driven by product mix and lower utilization of field technicians.

Selling Expenses

Selling expenses increased 79.2% to $1.6 million in the second quarter of 2014 compared to $0.9 million a year-ago and as a percentage of revenues increased to 7.1% from 3.6% a year-ago. The increase in selling expenses was primarily due to additional sales staff added as part of the Convergent acquisition.

Administrative Expenses

Administrative expenses increased 15.0% to $2.8 million in second quarter of 2014 from $2.5 million a year ago and as a percent of total revenue increased to 12.8% in 2014 from 10.1% in 2013. The increase in expenses is primarily due to additional administrative expenses related to the acquisition of Convergent partially offset by lower compensation related costs.

Other Financial Items

Our results for the second quarter of 2014 reflect no gains or losses pertaining to our 44.4% share of equity in the loss from Digital Link II, LLC, compared to a minimal loss in the second quarter of 2013.

The second quarter of 2014 includes other expense of $0.1 million compared to other income of $0.2 million in the second quarter of 2013 primarily related to net gains on foreign currency transactions.

We recorded income tax benefit of approximately $0.5 million in the second quarter of 2014 compared to income tax expense of $0.3 million in the second quarter of 2013. The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment earnings) was approximately 518.7% and 20.0% in the quarters ending June 30, 2014 and 2013, respectively. The Company’s effective rate was higher in the three months ended June 30, 2014 compared to the comparable period of 2013 due to the generated tax benefits from U.S. operating losses at significantly higher rates more than offsetting the tax expense related to our Canadian operations, Strong/MDI Screen Systems, Inc., which has a lower tax rate.

17

As a result of the items outlined above, we generated earnings of approximately $0.4 million and $0.03 basic and diluted earnings per share in the three months ended June 30, 2014 compared to $1.3 million in 2013 and basic and diluted earnings per share of $0.09 a year-ago, respectively.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Revenues

Net revenues during the six months ended June 30, 2014 decreased 15.3% to $44.0 million from $52.0 million during the six months ended June 30, 2013.

	Six Months Ended June 30, 2014	2013
	(In thousands)	
Systems Integration	$28,775	$46,992
Managed Services	15,973	5,762
Total segment revenues	44,748	52,754
Eliminations	(700)	(738)
Total net revenues	$44,048	$52,016

Systems Integration

Sales of systems integration products and services decreased 38.8% to $28.8 million in 2014 from $47.0 million in 2013. Sales of digital and analog cinema products and services decreased by $15.6 million as the industry changes to digital projection equipment continues to wind down as expected. In addition sales of lighting products decreased by $3.0 million. This decrease was driven by the completion of the World Trade Center project in 2013.

Managed Services

Sales of managed services products and services increased 177.2% to $16.0 million in 2014 from $5.8 million in 2013. Sales of products and services related to digital signage were $8.2 million in 2014 resulting from the October

2013 acquisition of Convergent. These sales were driven through the distribution of digital signage equipment as well as content creation, management and distribution. This was in addition to a $2.4 million increase in digital cinema service driven by non-recurring demand revenue and increased NOC contracts.

Export Revenues

Sales outside the United States (mainly systems integration sales) decreased to $13.8 million in 2014 from $15.8 million a year ago resulting primarily from decreased sales in Latin America partially offset by increased sales in Canada and Mexico. Export sales are sensitive to the timing of the digital cinema conversions in these countries and normal replacement cycles. Export sales are sensitive to worldwide economic and political conditions that lead to volatility. Certain areas of the world are more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers making it more difficult to generate sufficient profit to justify selling into these regions. Additionally, foreign exchange rates and excise taxes sometimes make it difficult to market our products overseas at reasonable selling prices.

Gross Profit

Consolidated gross profit decreased 1.5% to $8.5 million in 2014 from $8.6 million a year-ago, but increased as a percent of total revenue to 19.2% from 16.5% in 2013. Gross profit in the systems integration segment decreased to $5.2 million in 2014 from $7.0 million in 2013, but increased as a percentage of sales to 17.9% in 2014 from 15.0% a year-ago. The decrease in gross margin dollars was driven by lower volume, but the increase in gross margin as a percentage of sales was driven by product mix.

The gross profit in the managed services segment amounted to $3.3 million or 20.7% as a percentage of revenues in 2014 compared to $1.5 million or 26.4% as a percentage of revenues in 2013. The increase in gross margin was driven by higher revenues through the acquisition of CMS and increase in digital cinema services which allowed for greater utilization of field technicians.

Selling Expenses

Selling expenses increased 78.9% to $3.1 million in 2014 compared to $1.7 million a year-ago and as a percentage of revenues increased to 7.0% from 3.3% a year-ago. The increase in selling expenses was primarily due to additional sales staff added as part of the Convergent acquisition partially offset by lower compensation related costs.

Administrative Expenses

Administrative expenses increased 35.5% to $6.7 million in 2014 from $5.0 million in 2013 and as a percent of total revenue increased to 15.2% in 2014 from 9.5% in 2013. The increase in expenses is primarily due to additional administrative expenses related to the acquisition of Convergent.

Other Financial Items

Our results for 2014 reflect a gain of approximately $0.1 million pertaining to our 44.4% share of equity in the loss from Digital Link II, LLC, compared to a loss of approximately $0.1 million in 2013.

Our results for 2014 include other income of $0.1 million primarily related to net gains on foreign currency transactions, compared to $0.5 million in 2013.

We recorded income tax benefit of approximately $0.6 million in 2014 compared to income tax expense of $0.5 million in 2013. The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment earnings) was approximately 74.5% and 20.0% in the six months ending June 30, 2014 and 2013, respectively. The Company’s effective rate was higher in the six months ended June 30, 2014 compared to the comparable period of 2013 due to the generated tax benefits from U.S. operating losses at significantly higher rates more than offsetting the tax expense related to our Canadian operations, Strong/MDI Screen Systems, Inc., which has a lower tax rate.

As a result of the items outlined above, we generated net losses of approximately $0.2 million and basic and diluted losses per share of $0.02 in the six months ended June 30, 2014 compared to earnings of $1.8 million in 2013 and basic and diluted earnings per share of $0.13 a year-ago, respectively.

Liquidity and Capital Resources

During the past several years, we have met our working capital and capital resource needs from either our operating or investing cash flows or a combination of both. We ended the second quarter with total cash and cash equivalents of $26.9 million compared to $28.8 million at December 31, 2013.

We are party to a $20 million Revolving Credit Agreement and Note (collectively, the “Credit Agreement”) with Wells Fargo Bank, N.A. (“Wells Fargo”) which was renewed on June 20, 2014. The borrowings from the Credit Agreement will primarily be used for working capital purposes and for other general corporate purposes. The Company’s accounts receivable, general intangibles and inventory secure the Credit Agreement. Since inception of the agreement, no amounts have been borrowed on the Credit Agreement. At June 30, 2014, the Company had availability of $20 million.

As of June 30, 2014, $6.9 million of the $26.9 million of cash and cash equivalents was held by our foreign subsidiaries. During the 4th quarter of 2013 the Company determined that it would no longer indefinitely reinvest $12.0 million of accumulated earnings in Canada and accrued the taxes due upon repatriation which was completed during the second quarter. The Company believes the remaining accumulated earnings in its foreign subsidiaries will be indefinitely reinvested in those subsidiaries and has not accrued U.S. taxes on those earnings. If these funds are needed for our operations in the U.S. we would be required to accrue and pay U.S. income taxes and foreign taxes on a portion of these funds when repatriated back to the U.S.

Cash Flows from Operating Activities

Net cash used by operating activities was $1.1 million in the first six months of 2014, which included a net loss of $0.2 million, offset by non-cash charges (benefits) deferred tax expense, depreciation and amortization, reserve provisions and non-cash stock compensation totaling $0.4 million. Changes in working capital used cash from operating activities of $1.3 million, primarily due to decreases in accounts payables, accrued expenses and income taxes, partially offset by a decrease in accounts receivable. Accounts receivable decreased $6.0 million due to collections of the higher sales volume of the prior 2013 quarter compared to the second quarter of 2014. Accounts payable balances decreased $3.8 million due to payments made to vendors during the quarter for purchases made to fulfill orders during the fourth quarter of 2013.

Net cash provided by operating activities was $5.7 million in the first six months of 2013, which included net income of $1.8 million, plus non-cash charges (benefits) for gain on assets, deferred tax expense, depreciation and amortization, reserve provisions and non-cash stock compensation totaling $1.9 million. Changes in working capital provided cash from operating activities of $1.9 million. This is primarily due to a decrease in accounts receivable and other current assets, partially offset by increases in inventories and decreases in accounts payable and customer deposits. Accounts receivable balances decreased $12.5 million due to collections of the higher sales volume of the prior quarter 2013 as compared to the second quarter of 2013. Accounts payable decreased $7.8 million as the Company paid for fourth quarter 2013 inventory purchases.

19

Cash Flows from Investing Activities

Net cash used in investing activities amounted to $0.5 million in 2014 compared to net cash provided by investing activities of $0.2 million in 2013. The cash used in investing activities in 2014 and 2013 were primarily for capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing was minimal in 2014 and 2013.

Hedging and Trading Activities

Our primary exposure to foreign currency fluctuations pertain to our subsidiaries in Canada and China. In certain instances, we may enter into a foreign exchange contract to manage a portion of this risk. For the six months ended June 30, 2014 we recorded $0.1 million in realized and unrealized losses associated with these contracts in our condensed consolidated statement of income. This compares to losses of $0.2 million in the comparative period of 2013.

We do not have any trading activities that include non-exchange traded contracts at fair value.

Off Balance Sheet Arrangements and Contractual Obligations

The future estimated payments under these arrangements are summarized below along with our other contractual obligations:

Contractual Obligations	**Total**	**Remaining in 2014**	**One to Three Years**	**Three to Five Years**	**Thereafter**

Postretirement benefits	133	8	38	31	56
Operating leases	4,272	467	1,192	933	1,680
Contractual cash obligations	$4,405	$ 475	$1,230	$ 964	$ 1,736

(1) The schedule above excludes the following items:

We have accrued approximately $0.03 million of unrecognized tax benefits in the financial statements as tax liability, including interest and penalties, in accordance with FIN 48 as of June 30, 2014. Amounts for which the year of settlement occurs cannot be reasonably estimated.

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

Seasonality

Generally, our quarterly revenue and earnings fluctuate moderately from quarter to quarter. As we increase our sales in our current markets, and as we expand into new markets in different geographies, it is possible we may experience different seasonality patterns in our business. As a result, the results of operations for the period ended June 30, 2014 are not necessarily indicative of the results that may be expected for an entire fiscal year.

Litigation

From time to time we may be involved in various claims and legal actions which are routine litigation matters incidental to the business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial condition, results of operations or liquidity.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The guidance is effective for the Company beginning January 1, 2017 and may be adopted using a full retrospective or a modified cumulative effect approach. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting this guidance and has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in conformity with U.S. generally accepted accounting principles; management must make a variety of decisions which impact the reported amounts and the related disclosures. These decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In making these decisions, management applies its judgment based on its understanding and analysis of the relevant circumstances and our historical experience.

Our accounting policies and estimates that are most critical to the presentation of our results of operations and financial condition, and which require the greatest use of judgments and estimates by management, are designated as our critical accounting policies. See further discussion of our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for our year ended December 31, 2013. We periodically re-evaluate and adjust our critical accounting policies as circumstances change. There were no significant changes in our critical accounting policies during the six months ended June 30, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risks affecting us are exposure to interest rates and foreign currency exchange rates. We market our products throughout the United States and the world. As a result, we could be adversely affected by such factors as changes in foreign currency rates and weak economic conditions. As a majority of our sales are currently denominated in U.S. dollars, a strengthening of the dollar can and sometimes has made our products less competitive in foreign markets.

Interest Rates — We have a variable interest rate credit facility, however, we have no outstanding balances as of June 30, 2014. If we would borrow up to the maximum amount available under these facilities, a one percent increase in the interest rate would increase interest expense by $0.2 million per annum. Interest rate risks from our other interest related accounts such as our postretirement obligations are not deemed significant. We currently have long-term notes receivables bearing interest rates of 15% and are recorded at fair market value. A change in long-term interest rates for comparable types of instruments would have the effect of us recording changes in fair value through our statement of operations.

Foreign Exchange — Exposures to transactions denominated in a currency other than the entity's functional currency are primarily related to our China and Canadian subsidiaries. From time to time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with forecasted transactions. At June 30, 2014, we had no outstanding foreign currency forward contracts.

A portion of our cash in the China and Canadian subsidiaries is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balances by approximately $0.3 million.

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 (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in the Company's internal control over financial reporting during the fiscal quarter for the period covered by this report that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 includes a detailed discussion of the Company’s risk factors. There have been no material changes to the risk factors previously disclosed.

Item 6. Exhibits

See the Exhibit Index.

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 STRONG, INC.

By:	/s/ GARY L. CAVEY Gary L. Cavey, President, Chief Executive Officer and Director	By:	/s/ MARY A. CARSTENS Mary A. Carstens, Chief Financial Officer
Date:	August 8, 2014	Date:	August 8, 2014

22

EXHIBIT INDEX

Exhibit Number	Document Description	Incorporated by Reference Form	Exhibit	Filing Date	Filed Herewith
3.1	Certificate of Incorporation of Ballantyne of Omaha, Inc.	S-8	3.1	12/7/06	
3.2	Certificate of Amendment of Certificate of Incorporation	S-8	3.1.1	12/7/06	
3.3	Certificate of Amendment of Certificate of Incorporation	S-8	3.1.2	12/7/06	
3.4	Certificate of Amendment of Certificate of Incorporation	S-8	3.1.3	12/7/06	
3.5	Certificate of Amendment of Certificate of Incorporation	S-8	3.1.4	12/7/06	
3.6	Ballantyne of Omaha, Inc. Bylaws	10-K	3.2	4/1/08	
3.7	First Amendment to Bylaws of Ballantyne of Omaha, Inc.	10-K	3.2.1	4/1/08	
3.8	Second Amendment to Bylaws of Ballantyne of Omaha, Inc.	10-K	3.2.2	4/1/08	
3.9	Third Amendment to Bylaws of Ballantyne of Omaha, Inc.	10-K	3.2.3	4/1/08	
3.10	Fourth Amendment to Bylaws of Ballantyne of Omaha, Inc.	10-K	3.2.4	4/1/08	
3.11	Fifth Amendment to Bylaws of Ballantyne of Omaha, Inc.			5/2/12	
10.1	Third Amendment to Credit Agreement, dated June 20, 2014, by and between the company and Wells Fargo Bank, N.A.	8-K	4.1	6/25/14	
10.2	$20,000,000 Revoloving Line of Credit Note, dated June 20, 2014, delivered by the Company to Wells Fargo Bank, N.A.	8-K	4.2	6/25/14	
31.1	Rule 13a-14(a) Certification of Chief Executive Officer				X
31.2	Rule 13a-14(a) Certification of Chief Financial Officer				X
32.1	18 U.S.C. Section 1350 Certification of Chief Executive Officer				X
32.2	18 U.S.C. Section 1350 Certification of Chief Financial Officer				X
101	The following materials from Ballantyne Strong's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed				X

Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Condensed Consolidated Financial Statements.

23