

BLONDER TONGUE LABORATORIES INC
Form 10-K/A
November 22, 2004

**FORM 10-K/A
(AMENDMENT NO. 1)**

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003, OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 FOR THE TRANSITION PERIOD FROM _____ to _____

Commission file number: 1-14120

BLONDER TONGUE LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

52-1611421

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Jake Brown Road, Old Bridge, New Jersey

08857

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(732) 679-4000**

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

Title of each class

Name of Exchange on which registered

Common Stock, Par Value \$.001

American Stock Exchange

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2003: \$7,574,835.

Number of shares of common stock, par value \$.001, outstanding as of March 19, 2004: 8,002,406.

Documents incorporated by reference:

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Certain portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 2004 (which is expected to be filed with the Commission not later than 120 days after the end of the registrant's last fiscal year) are incorporated by reference into Part III of this report.

Forward-Looking Statements

In addition to historical information, this Annual Report contains forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the Company's business include, but are not limited to, those matters discussed herein in the sections entitled Item 1 - Business, Item 3 - Legal Proceedings, and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The words "believe", "expect", "anticipate", "project" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described herein and in other documents the Company files from time to time with the Securities and Exchange Commission.

EXPLANATORY NOTE

Blonder Tongue Laboratories, Inc. ("**Blonder Tongue**" or the "**Company**") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2003 (this "**Form 10-K/A**") to reflect the correction of a vendor's account payable balance and the related impact to costs of goods sold and net income (loss). As a result of these revisions, the Company is restating its consolidated financial statements as of December 31, 2001, 2002 and 2003 and for each of the years in the three-year period ended December 31, 2003. For a detailed description of the effect of the restatement, see Note 2 to the consolidated financial statements accompanying this Amendment. In addition, as previously reported in the Company's Form 10-Q for the quarter ended June 30, 2004, the Company reclassified certain inventory not anticipated to be sold in the next twelve months as non-current and reflected such reclassification on the December 31, 2003 balance sheet. For a detailed description of the effect of the reclassification of inventory, see Note 3 to the consolidated financial statements accompanying this Amendment. The Company disclosed in its Current Report on Form 8-K, filed November 8, 2004, that it would be restating its results for the aforementioned periods.

The Items of the Company's Annual Report on Form 10-K for the year ending December 31, 2003 which are amended and restated are as follows: Item 6 - Selected Consolidated Financial Data; Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 8 - Financial Statements and Supplementary Data (including the Consolidated Financial Statements, Notes to Consolidated Financial Statements and the Report of Independent Certified Public Accountants); Item 9A - Controls and Procedures; and Item 15 - Exhibits, Financial Statement Schedules and Reports on Form 8-K.

The remaining Items contained within this Amendment No. 1 to Annual Report on Form 10-K/A consist of all other Items originally contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 in the form filed on March 30, 2004. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update those disclosures in any way other than as required to reflect the effects of the restatement.

PART I

ITEM 1. BUSINESS

Introduction

Blonder Tongue is a designer, manufacturer and supplier of a comprehensive line of electronics and systems equipment, primarily for the cable television industry (both franchise and non-franchise, or "private," cable). Over the past year, the Company has also introduced equipment and innovative solutions for the high-speed transmission of data and the provision of telephony services in multiple dwelling unit applications. The Company's products are used to acquire, distribute and protect the broad range of communications signals carried on fiber optic, twisted pair, coaxial cable and wireless distribution systems. These products are sold to customers providing an array of communications services, including television, high-speed data (Internet) and telephony, to single family dwellings, multiple dwelling units ("**MDUs**"), the lodging industry and institutions such

as hospitals, prisons, schools and marinas.

Staying at the forefront of the communications broadband technology revolution is a continuing challenge. The Company continues to add products to respond to the changes taking place. Blonder Tongue's most recent additions are a line of telephony products for the purpose of offering primary telephone service to MDUs and the MegaPort line of high speed data products to provide broadband access to lodging and MDU communities. Other product additions over the past few years include digital satellite receivers, fiber communications network components, QPSK to QAM transcoders (for DirecTV, Echostar and Digicipher II MPEG-2 Satellite Services), Digicipher II-compatible QAM set-top converters, and a broad range of interdiction products.

The Company's principal customers are cable system integrators (both franchise and private cable operators, as well as contractors) that design, package, install and in most instances operate, upgrade and maintain the systems they build.

The Company has historically enjoyed, and continues to enjoy, a dominant market position in the private cable industry, while progressively making inroads into the franchise cable market. As the Company has expanded its market coverage, however, the distinctions between private cable and franchise cable have become blurred. For example, the most efficient, highest revenue-producing private cable systems and small franchise cable systems are built with the same electronic building blocks. Most of the electronics required for these systems are available from Blonder Tongue.

The Company continues to expand its core product lines (headend and distribution), to maintain its ability to provide all of the electronic equipment needed to build small cable systems and much of the equipment needed in larger systems for the most efficient operation and highest profitability in high density applications.

Over the past two years, the Company has expanded beyond its core business by acquiring a private cable television system (BDR Broadband, LLC) and by acquiring an interest in a company offering a private telephone program ideally suited to multiple dwelling unit applications (Blonder Tongue Telephone, LLC).

BDR Broadband, LLC ("**BDR Broadband**"), a 90% owned subsidiary of the Company, acquired the rights-of-entry for certain MDU cable television systems in August 2002. The systems are comprised of approximately 3,070 existing MDU cable television subscribers and approximately 7,520 passings. BDR Broadband is a venture between the Company and Priority Systems, LLC. During July 2003, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Paradigm Capital Investments, LLC, for an aggregate purchase price of \$35,000 resulting in the Company's stake in BDR Broadband increasing from 80% to 90%. Priority Systems, LLC has expertise in marketing and operating MDU cable television systems. The Company believes that the model it has devised for acquiring and operating these systems will be successful and can be replicated. While the Company is not actively seeking opportunities to acquire additional rights-of-entry at the present time, if such opportunities arise, the Company would evaluate and consider them. As of the date hereof, the Company does not have any binding commitments or agreements for any such acquisitions.

The Company entered into a series of agreements in March, 2003, and September, 2003 pursuant to which it acquired a 50% economic ownership interest in NetLinc Communications, LLC and Blonder Tongue Telephone, LLC (to which the Company has licensed its name). As a result of these acquisitions, the Company is now involved in providing a proprietary telephone system ideally suited for MDU deployment in both products and services. The Company receives incremental revenues associated with its direct sales of the telephony products, and it also expects to receive a portion of Blonder Tongue Telephone, LLC's net income derived from voice-service revenues through its 50% stake in Blonder Tongue Telephone. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" for a more detailed description of the investments in the private cable operation and telephone program and the underlying operations.

The Company was incorporated under the laws of the State of Delaware in November, 1988.

Industry Overview

The broadband signal distribution industry (involving the high-speed transmission of television, telephony and internet signals) is currently dominated by franchise multiple system cable operators, or MSOs. The markets for wireless, direct-broadcast satellite (“DBS”) and digital subscriber lines (“DSL”) used for these purposes continue to grow. Within the cable television market there are an increasing number of metropolitan areas that have awarded second cable television franchises to create competition with the existing franchisee. The government has been in favor of competition in this market and has passed regulations to encourage it. Franchise cable companies carefully monitor DBS penetration in their franchise areas and react rapidly to competition, all to the eventual benefit of the consumer. To fight competition, the operators offer more services and more television channels as well as discounted prices. The lineup of services typically includes an analog block of channels from 54 to 550 MHz, high speed data service using high-speed cable modems, cable telephony either interfacing with switched networks or internet protocol networks, and digital television in the 550 to 750 MHz range. These upgraded services are possible in every system that has been rebuilt to 750 MHz of bandwidth. The standard architecture for these enhanced systems contemplates a hybrid distribution network with a combination of fiber optic cable to nodes of 100 to 500 subscribers, with coaxial cable from the node to the customer and full reverse-path capability for the pay-per-view, data and phone services.

The traditional customer targeted for these expanded services is a homeowner likely to remain in the same home as a long-term subscriber (i.e. the single family home). For a variety of reasons, including the transient nature of the residents of many MDU areas, high levels of theft of service and excessive cost of replacing lost or stolen converters and modems, affect approximately 35% of cable television subscribers. Since converters, DBS receivers, digital converters and modems are offered at very low prices to stimulate sales, the operational costs in these demographic areas are considered too high to justify offering the advanced services that are generally made available in the traditional franchise cable demographic. To retain customers in these areas, a technology must be used that minimizes the operational losses due to theft and “churn” while providing a level of video, data and phone service that compares favorably with single family offerings, DBS, DSL and wireless providers. The Company believes that its Triple Play of products, which includes QAM delivered digital video, interdiction to control analog video, as well as high-speed data and telephone service, is the ideal solution for deployment in these areas.

The Company is a value-added distributor for Motorola’s QAM decoder to the United States private cable and Canadian franchise cable markets. Coupling this product with the Company’s Digicipher® II-compatible MQOT transcoder provides a low-cost hardware solution for small system operators that want to offer digital programming from sources such as HITS® and Cancom. The Company’s transcoder line has been further enhanced to include the QAM Transcoder Series, which is intended for use with Dish® Commercial TV from EchoStar.

Cable Television

Most cable television operators have built fiber optic networks with various combinations of fiber optic and coaxial cable to deliver television signal programming, data, and phone services on one drop cable. Cable television deployment of fiber optic trunk has been completed in many existing systems. The system architecture being employed to accomplish the combined provision of television and telephone service is a hybrid fiber coaxial (“HFC”) network. In an HFC network, fiber optic trunk lines connect to nodes which feed 100 to 500 subscribers, using coaxial cable.

The Company believes that most major metropolitan areas will eventually have complex networks of two or more independent operators interconnecting homes, while private cable operators will have large networks interconnecting many multi-dwelling complexes. All of these networks are potential users of Blonder Tongue headend, digital and interdiction products.

Multiple Dwelling Units (MDUs)

MDUs, because they represent a large percentage of the private cable market, have historically been responsible for a large percentage of the Company’s sales. In the early days of cable television MDUs were served by franchise cable operators. In 1991, when the FCC allocated a designated frequency band for private cable, the private cable industry became a major supplier of TV services to MDUs since they could interconnect buildings

with 18 GHz over the air links and reduce the cost per subscriber in building MDU networks. This type of networking, albeit at a slightly lower frequency, continues today, however, presently many MDU private cable systems are connected using fiber optics since it is more reliable, has much greater bandwidth, and can handle two-way communication which is needed for voice, data and video on demand.

A typical private cable MDU provides 60 to 70 channels of analog signals utilizing core headend (receivers, modulators, processors, etc.) and distribution products. MDUs served by franchise cable are also a large revenue source for Blonder Tongue since they generally fall into the category of customers where churn, theft of service and converter loss are extremely high. This makes these areas prime candidates for Blonder Tongue's interdiction products.

Lodging

Since the early 1990's, private cable integrators have competed to expand the lodging market by offering systems with more channels, video-on-demand and interactivity. These systems have been and continue to be well received in the market, as property owners have sought additional revenues and guests have demanded increased in-room conveniences. The leading system integrators in this market rely upon outside suppliers for their system electronics and most are Blonder Tongue customers. These companies and others offer lodging establishments systems that provide true video-on-demand movies with a large selection of titles. To meet these demands, the typical lodging system headend will include as many as 20 to 40 receivers and as many as 60 to 80 modulators, and will be capable of providing the guest with more free channels, video-on-demand for a broad selection of movie titles, and interactive services such as remote check-out and concierge services. This is in contrast to the systems which preceded them, which typically had 10 to 12 receivers and modulators and provided six to ten free channels and two to five channels of VCR-based movies running at published scheduled times.

Most of the systems with video-on-demand service were initially in large hotels, where the economics of high channel capacity systems are more easily justified. The conversion of hotel pay-per-view systems into video-on-demand is increasing. Smaller hotels and motels are being provided with video-on-demand as technology results in reduced headend costs, keeping the market growth reasonably steady.

International

For much of the world, cable television service lags the United States, but is expanding as technological advancement reduces the cost to consumers. In addition, economic development in Latin America and Asia has allowed first time construction of integrated delivery systems that utilize a variety of electronics and broadband hardware. The pace of growth is difficult to predict, but as more alternatives become available and television service becomes increasingly affordable, it is anticipated that more equipment will be placed in the field. The Company utilizes several distributors in Florida and within Latin America to serve the Latin American market, although during the last year international sales have not materially contributed to the Company's revenue base.

Additional Considerations

The technological revolution taking place in the communications industry, which includes DBS, is providing digital television to an increasing number of homes. Wireless cable systems and DSL over twisted pair phone lines also utilize digital compression to provide channel capacity which is competitive with cable television and other television delivery systems. In addition, franchise cable companies and alternative suppliers are building fiber optic networks to offer video, data, and telephony. There is also the possibility of convergence of data and video communications, wherein computer and television systems merge and the computer monitor replaces the television screen. While it is not possible to predict with certainty which technology will be dominant in the future, it is clear that digitized video and advances in the ability to compress the digitized video signal make both digital television and the convergence of computer, telephone and television systems technically possible.

Since United States television sets are for the most part analog (not digital), direct satellite television and other digitally compressed programming requires headend products or set-top decoding receivers or converters to convert the digitally transmitted satellite signals back to analog. The replacement of all television sets with digital sets will be costly and take many years to complete. The Company believes that for many years to come, program providers will be required to deliver an analog television signal on standard channels to subscribers' television sets using headend products at some distribution point in their networks or employ decoding receivers at each television set. Headend products are a large segment of Blonder Tongue's business and the Company believes interdiction is an ideal product for a system operator to use to control access to the multitude of programming that will be available.

Products

Blonder Tongue's products can be separated, according to function, into the several categories described below:

□ **Analog Video Headend Products** used by a system operator for signal acquisition, processing and manipulation for further transmission. Among the products offered by the Company in this category are satellite receivers, integrated receiver/decoders, transcoders, demodulators, modulators, antennas and antenna mounts, amplifiers, equalizers, and processors. The headend of a television signal distribution system is the "brain" of the system, the central location where the multi-channel signal is initially received, converted and allocated to specific channels for analog distribution. In some cases, where the signal is transmitted in encrypted form or digitized and compressed, the receiver will also be required to decode the signal. Blonder Tongue is a licensee of Motorola, Inc.'s ("**Motorola**") VideoCipher® and DigiCipher® encryption technologies and integrates their decoders into integrated receiver/decoder products, where required. The Company estimates that Headend Products accounted for approximately 54% of the Company's revenues in 2003, 66% in 2002, and 58% in 2001.

□ **Digital Video Headend Products** used by a system operator for acquisition, processing and manipulation of digital video signals. An alternative to converting signals to analog for distribution is to transcode the satellite signal's modulation from QPSK (quadrature phase shift key) to QAM (quadrature amplitude modulation) since one is optimum for satellite transmission and the other optimum for fiber/coaxial distribution. This maintains the signal in its digital form. Digital Products continue to expand in the cable marketplace and bring more advanced technology to consumers and operators. Blonder Tongue is constantly expanding its Digital Products offering, which includes a complete line of Transcoders for economically deploying and adding a digital programming tier to systems, Digital QAM Up-converters for data-over-cable applications and Digital High Definition Television Processors for delivery of HDTV programming.

□ **High Speed Data Products** used to provide Internet access and data transfer over a hybrid fiber/coaxial cable system. Products in this category include standard cable modems and routers, and the new MegaPort solution for providing broadband Internet access to MDUs. The MegaPort solution consists of two main components, the Gateway and the Intelligent Outlets. The Gateway is a broadband ethernet router or bridge that establishes a network within a building or community. The Intelligent Outlet serves as the modem, but is permanently installed in the home to eliminate loss of equipment associated with churn. Each Gateway can accommodate 64 enabled Outlets. When multiple outlets are installed in a residence, they can be configured for home networking for an additional revenue stream for the operator.

□ **Telephony Products** used to provide expanded telephone service to MDU subscribers. These products are designed to offer carrier class telephone service to residences using existing twisted pair wires. Service will be fully transparent to subscribers with advanced calling features such as 911, Caller ID, Call Waiting Plus, and Three-way Calling available and bundled at a flat rate to subscribers. The Blonder Tongue telephony family of products includes a T1 concentrator and a multiplexer. The system starts at a telephone company class 5 switch located at their local central office. A T1 line is routed from the switch and brought to the LoopXpress Concentrator. The telephone information is then routed to the LineXpress Multiplexer which converts the digital format into analog voice frequencies for transmission to up to 12 independent resident telephone lines. The existing twisted-pair telephone wiring infrastructure is utilized to provide dial tone at a resident's premises using any standard telephone. System operation, including activating and deactivating phone lines, is achieved through a point-and-click software package. Communication to the equipment can be performed locally or remotely for increased operating efficiency and simplified system management. While the Company does not have a history of sales of telephony products as it only acquired the distribution rights in 2003, several system trials are underway with a variety of cable operators. The Company believes that sales of these telephony products will grow into a significant source of revenue for the Company.

□ **Microwave Products** used to transmit the output of a cable system headend to multiple locations using point-to-point communication links in the 18 GHz range of frequencies. Products offered in this category are power amplifiers, repeaters, receivers, transmitters and compatible accessories. These products convert the headend output up to the microwave band and transmit this signal using parabolic antennas. At each receiver site, a parabolic antenna-receiver combination converts the signal back to normal VHF frequencies for distribution to subscribers at the receiver site. Due to a Second Order on Reconsideration adopted by the Federal Communications Commission (“FCC”) in November 2002, coupled with the availability and inherent superiority of fiber optics in linking adjacent properties in MDU applications, sales of microwave products have diminished. While microwave products will continue to be sold to maintain existing systems, the Company does not anticipate that these products will contribute significantly to the Company’s revenues.

□ **Fiber Products** used to transmit the output of a cable system headend to multiple locations using fiber optic cable. Among the products offered are optical transmitters, receivers, couplers, splitters and compatible accessories. These products convert RF frequencies to light (or infrared) frequencies and launch them on optical fiber. At each receiver site, an optical receiver is used to convert the signals back to normal VHF frequencies for distribution to subscribers. Sales of products in this category continue to increase as they have become the product of choice in applications formerly suitable to the use of microwave products.

□ **Distribution Products** used to permit signals to travel from the headend to their ultimate destination in a home, apartment unit, hotel room, office or other terminal location along a distribution network of fiber optic or coaxial cable. Among the products offered by the Company in this category are line extenders, broadband amplifiers, directional taps, splitters and wall taps. In cable television systems, the distribution products are either mounted on exterior telephone poles or encased in pedestals, vaults or other security devices. In private cable systems the distribution system is typically enclosed within the walls of the building (if a single structure) or added to an existing structure using various techniques to hide the coaxial cable and devices. The non-passive devices within this category are designed to ensure that the signal distributed from the headend is of sufficient strength when it arrives at its final destination to provide high quality audio/video images. The Company estimates distribution products accounted for approximately 19% of the Company’s revenues in 2003, 17% in 2002 and 15% in 2001.

□ **Addressable Subscriber and Interdiction Products** used to control access to programming at the subscriber’s location. Among the products offered by the Company in this category are (i) its VideoMask addressable signal jammer, licensed from Philips Electronics North America Corporation and its affiliate Philips Broadband Networks, Inc. (ii) the SMI Interdiction product line acquired from ScientificAtlanta, Inc. as part of its interdiction business, and (iii) the recently introduced Addressable Multi-Tap (AMT). Interdiction products limit the availability of programs to subscribers, through jamming of particular channels. Such products enable an operator to control subscriber access to premium channels and other enhanced services through a computer located off-premises. They also eliminate the necessity of an operator having to make a service call to install or remove passive traps and eliminate the costs associated with damage or loss of analog set-top converters in the subscribers’ locations. The Company believes that the reduction in operating costs, programming piracy, and converter loss which can be obtained through the use of interdiction can be a significant factor in further product penetration into the franchise cable market in MDU applications. While it is not possible to predict the breadth of market acceptance for these products, the Company believes the potential is substantial in both the private cable market and franchise cable market as alternatives to, or in conjunction with, set-top converters and as a viable option for companies and municipalities who are overbuilding existing cable infrastructures and are seeking a more consumer-friendly and cost-effective way to compete with the incumbent franchise cable operator. The Company estimates that Interdiction products accounted for approximately 11% of the Company’s revenues in 2003, 8% in 2002 and 15% in 2001.

□ **Test Products** used for measuring signals in the Headend and Distribution. Among the products offered by the Company in this category are analog and digital Spectrum Analyzers, QPSK Analyzers, and hand held Palm Analyzers. While the Company expects to continue selling test products to meet the needs of customers, the Company does not anticipate that these products will contribute significantly to the Company’s revenues.

The Company will modify its products to meet specific customer requirements. Typically, these modifications are minor and do not materially alter the functionality of the products. Thus, the inability of the customer to accept such products does not generally result in the Company being otherwise unable to sell such products to other customers.

Research and Product Development

The markets served by Blonder Tongue are characterized by technological change, new product introductions, and evolving industry standards. To compete effectively in this environment, the Company must engage in ongoing research and development in order to (i) create new products, (ii) expand the frequency range of existing products in order to accommodate customer demand for greater channel capacity, (iii) license new technology (such as digital satellite receiver decoders and high-speed data transmission products), and (iv) acquire products incorporating technology that could not otherwise be developed quickly enough using internal resources, to suit the dynamics of the evolving marketplace. Research and development projects are often initially undertaken at the request of and in an effort to address the particular needs of the Company's customers and customer prospects with the expectation or promise of substantial future orders from such customers or customer prospects. Additional research and development efforts are also continuously underway for the purpose of enhancing product quality and engineering to lower production costs. For the acquisition of new technologies, the Company may rely upon technology licenses from third parties when the Company believes that it can obtain such technology more quickly and/or cost-effectively from such third parties than the Company could otherwise develop on its own, or when the desired technology is proprietary to a third party. There were 15 employees in the research and development department of the Company at December 31, 2003.

Marketing and Sales

Blonder Tongue markets and sells its products worldwide to the following markets: private cable operators, system contractors, franchise cable operators, the lodging industry, institutions, satellite dealers and retailers. Sales are made directly to customers by the Company's internal sales force, as well as through numerous domestic stocking distributors (which accounted for approximately 48% of the Company's revenues for fiscal 2003). These distributors serve multiple markets. Direct sales to private cable operators and system integrators accounted for approximately 23% of the Company's revenues for fiscal 2003.

The Company's sales and marketing function is predominantly performed by its internal sales force. Should it be deemed necessary, the Company may retain independent sales representatives in particular geographic areas or targeted to specific customer prospects. The Company's internal sales force consists of 25 employees, which currently includes 11 salespersons (7 salespersons in Old Bridge, New Jersey, one salesperson in each of North Myrtle Beach, South Carolina, Cudahy, Wisconsin, Folsom, California, and Miami, Florida) and 14 sales-support personnel at the Company headquarters in Old Bridge, New Jersey.

The Company's standard customer payment terms are 2%¹⁰, net 30 days. From time to time where the Company determines that circumstances warrant, such as when a customer agrees to commit to a large blanket purchase order, the Company extends payment terms beyond its standard payment terms.

The Company has several marketing programs to support the sale and distribution of its products. Blonder Tongue participates in industry trade shows and conferences. The Company also publishes technical articles in trade and technical journals, distributes sales and product literature and has an active public relations plan to ensure complete coverage of Blonder Tongue's products and technology by editors of trade journals. The Company provides system design engineering for its customers, maintains extensive ongoing communications with many original equipment manufacturer customers and provides one-on-one demonstrations and technical seminars to potential new customers. Blonder Tongue supplies sales and applications support, product literature and training to its sales representatives and distributors. The management of the Company travels extensively, identifying customer needs and meeting potential customers.

The Company had approximately \$639,000 in purchase orders as of December 31, 2003 and approximately \$1.0 million in purchase orders as of December 31, 2002. All of the purchase orders outstanding as of December 31, 2003 are expected to be shipped prior to December 31, 2004. The purchase orders are for the future delivery of products and are subject to cancellation by the customers.

Customers

Blonder Tongue has a broad customer base, which in 2003 consisted of approximately 600 active accounts. Approximately 43%, 50%, and 39% of the Company's revenues in fiscal years 2003, 2002, and 2001, respectively, were derived from sales of products to the Company's five largest customers. In 2003 and 2002, sales to Toner Cable Equipment, Inc. accounted for approximately 21% and 20% respectively of the Company's revenues. There can be no assurance that any sales to these entities, individually or as a group, will reach or exceed historical levels in any future period. However, the Company anticipates that these customers will continue to account for a significant portion of the Company's revenues in future periods, although none of them is obligated to purchase any specified amount of products or to provide the Company with binding forecasts of product purchases for any future period.

The complement of leading customers may shift as the most efficient and better financed integrators grow more rapidly than others. The Company believes that many integrators will grow rapidly, and as such the Company's success will depend in part on the viability of those customers and on the Company's ability to maintain its position in the overall marketplace by shifting its emphasis to those customers with the greatest growth and growth prospects. Any substantial decrease or delay in sales to one or more of the Company's leading customers, the financial failure of any of these entities, or the Company's inability to develop and maintain solid relationships with the integrators which may replace the present leading customers, would have a material adverse effect on the Company's results of operations and financial condition.

The Company's revenues are derived primarily from customers in the continental United States, however, the Company also derives revenues from customers outside the continental United States, primarily in Canada and to a more limited extent, in underdeveloped countries. Television service is less developed in many international markets, particularly Latin America and Asia, creating opportunity for those participants who offer quality products at a competitive price. Sales to customers outside of the United States represented approximately 2%, 8% and 2% of the Company's revenues in fiscal years 2003, 2002 and 2001 respectively. All of the Company's transactions with customers located outside of the continental United States are denominated in U.S. dollars, therefore, the Company has no material foreign currency transactions.

Manufacturing and Suppliers

Blonder Tongue's manufacturing operations are located at the Company's headquarters in Old Bridge, New Jersey. The Company's manufacturing operations are vertically integrated and consist principally of the assembly and testing of electronic assemblies built from fabricated parts, printed circuit boards and electronic devices and the fabrication from raw sheet metal of chassis and cabinets for such assemblies. Management continues to implement a significant number of changes to the manufacturing process to increase production volume and reduce product cost, including logistics modifications on the factory floor, an increased use of surface mount, axial lead and radial lead robotics to place electronic components on printed circuit boards, a continuing program of circuit board redesign to make more products compatible with robotic insertion equipment and an increased integration in machining and fabrication. All of these efforts are consistent with and part of the Company's strategy to provide its customers with high performance-to-cost ratio products.

Outside contractors supply standard components, etch-printed circuit boards and electronic subassemblies to the Company's specifications. While the Company generally purchases electronic parts which do not have a unique source, certain electronic component parts used within the Company's products are available from a limited number of suppliers and can be subject to temporary shortages because of general economic conditions and the demand and supply for such component parts. If the Company were to experience a temporary shortage of any given electronic part, the Company believes that alternative parts could be obtained or system design changes implemented. However, in such situations the Company may experience temporary reductions in its ability to ship products affected by the component shortage. On an as-needed basis, the Company purchases several products from sole suppliers for which alternative sources are not available, such as the VideoCipher® and DigiCipher® encryption systems manufactured by Motorola, which are standard encryption methodologies employed on U.S. C-Band and Ku-Band transponders and Hughes digital satellite receivers for delivery of DIRECTV® programming. An inability to timely obtain sufficient quantities of these components could have a material adverse effect on the Company's operating results. The Company does not have an agreement with any sole source supplier requiring the supplier to sell a specified volume of components to the Company.

Blonder Tongue maintains a quality assurance program which tests samples of component parts purchased, as well as its finished products, on an ongoing basis and also conducts tests throughout the manufacturing process using commercially available and in-house built testing systems that incorporate proprietary procedures. Blonder Tongue performs final product tests on 100% of its products prior to shipment to customers.

Competition

All aspects of the Company's business are highly competitive. The Company competes with national, regional and local manufacturers and distributors, including companies larger than Blonder Tongue which have substantially greater resources. Various manufacturers who are suppliers to the Company sell directly as well as through distributors into the franchise and private cable marketplaces. Because of the convergence of the cable, telecommunications and computer industries and rapid technological development, new competitors may seek to enter the principal markets served by the Company. Many of these potential competitors have significantly greater financial, technical, manufacturing, marketing, sales and other resources than Blonder Tongue. The Company expects that direct and indirect competition will increase in the future. Additional competition could result in price reductions, loss of market share and delays in the timing of customer orders. The principal methods of competition are product differentiation, performance and quality, price and terms, service, and technical and administrative support.

Intellectual Property

The Company currently holds 30 United States patents and 14 foreign patents covering a wide range of electronic systems and circuits, of which 19 United States patents and 10 foreign patents were obtained in the Company's acquisition of ScientificAtlanta, Inc.'s interdiction business during 1998. Other than certain of the patents acquired from ScientificAtlanta, Inc., none of the Company's patents are considered material to the Company's present operations because they do not relate to high volume applications. Because of the rapidly evolving nature of the cable television industry, the Company believes that its market position as a supplier to cable integrators derives primarily from its ability to develop a continuous stream of new products which are designed to meet its customers' needs and which have a high performance-to-cost ratio.

The Company has a registered trademark on "Blonder Tongue®" and also on a "BT®" logo. In connection with the transactions pursuant to which the Company acquired an ownership interest in NetLinc and Blonder Tongue Telephone, the Company granted Blonder Tongue Telephone a non-exclusive, revocable and royalty-free license to use these trademarks and certain variations of such names.

The Company is a licensee of Philips Electronics North America Corporation and its affiliate Philips Broadband Networks, Inc., Motorola, Hughes and several smaller software development companies.

Under the Philips License Agreements, the Company is granted a non-exclusive license for a term which expires in 2010, concurrently with the last to expire of the relevant patents. The Philips License Agreements provide for the payment by the Company of a one-time license fee and for the payment by the Company of royalties based upon unit sales of licensed products.

The Company is a licensee of Motorola relating to Motorola's VideoCipher® encryption technology and is also a party to a private label agreement with Motorola relating to its DigiCipher® technology. Under the VideoCipher® license agreement, the Company is granted a non-exclusive license under certain proprietary know-how, to design and manufacture certain licensed products to be compatible with the VideoCipher® commercial descrambler module. The VideoCipher® license agreement provides for the payment by the Company of a one-time license fee for the Company's first model of licensed product and additional one-time license fees for each additional model of licensed product. The VideoCipher® license agreement also provides for the payment by the Company of royalties based upon unit sales of licensed products. Under the DigiCipher® private label agreement, the Company is granted the non-exclusive right to sell DigiCipher® II integrated receiver decoders bearing the Blonder Tongue name for use in the commercial market. The DigiCipher® private label agreement provides for the payment by the Company of a one-time license fee for the Company's first model of licensed product and additional one-time license fees for each additional model of licensed product.

During 1996, the Company entered into several software development and license agreements for specifically designed controller and interface software necessary for the operation of the Company's Video Central remote interdiction control system, which is used for remote operation of VideoMask signal jammers installed at subscriber locations. These licenses are perpetual and require the payment of a one-time license fee and in one case additional payments, the aggregate of which are not material.

The Company relies on a combination of contractual rights and trade secret laws to protect its proprietary technologies and know-how. There can be no assurance that the Company will be able to protect its technologies and know-how or that third parties will not be able to develop similar technologies and know-how independently. Therefore, existing and potential competitors may be able to develop products that are competitive with the Company's products and such competition could adversely affect the prices for the Company's products or the Company's market share. The Company also believes that factors such as the technological and creative skills of its personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance are essential to establishing and maintaining its competitive position.

Regulation

Private cable, while in some cases subject to certain FCC licensing requirements, is not presently burdened with extensive government regulations. Franchise cable operators had been subject to extensive government regulation pursuant to the Cable Television Consumer Protection and Competition Act of 1992, which among other things provided for rate rollbacks for basic tier cable service, further rate reductions under certain circumstances and limitations on future rate increases. The Telecommunications Act of 1996 deregulated many aspects of franchise cable system operation and opened the door to competition among cable operators and telephone companies in each of their respective industries.

In June, 2000, the FCC adopted and issued a Final Rule and Order relating to the re-designation of portions of the 18GHz frequency band among the various currently allocated services. The Final Rules regarding this issue provided for the grandfathering, for a period of ten years, of certain pre-existing (installed) terrestrial fixed service operators ("TFSOs") and TFSOs that had made application for a license prior to a certain date. The FCC segmented the 18GHz frequency band into several sub-bands and provided for varying obligations and rights as between the TFSOs and Fixed Satellite Service Operators ("FSSOs"). Overall, the Final Rules were complex and placed a measure of uncertainty upon TFSOs considering the use of microwave gear in new systems. In November 2002, the FCC issued a Second Order on Reconsideration (the "Second Order"), which redefined the use of the 18 GHz microwave band. Among other things, the Second Order changed the permissible band of transmission for future microwave links from the 18.42 to 18.58 GHz band to the 17.7 GHz to 18.3 GHz band. As a result of the Second Order, the Company's existing microwave inventory would have to be modified to function within the new frequency band. While the new 18GHz band provides additional channel capacity to the private cable operator, because specialized and expensive equipment will be required to take advantage of this additional bandwidth, the impact on future sales is uncertain at this time. These issues, coupled with the recent advances in the use of fiber optic cable and the inherent superiority in fiber due to its greater bandwidth capability, have resulted in a shift in customer purchases away from microwave gear and toward fiber optics.

Environmental Regulations

The Company is subject to a variety of Federal, state and local governmental regulations related to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in its manufacturing processes. The Company did not incur in 2003 and does not anticipate incurring in 2004 material capital expenditures for compliance with Federal, state and local environmental laws and regulations. There can be no assurance, however, that changes in environmental regulations will not result in the need for additional capital expenditures or otherwise impose additional financial burdens on the Company. Further, such regulations could restrict the Company's ability to expand its operations. Any failure by the Company to obtain required permits for, control the use of, or adequately restrict the discharge of, hazardous substances under present or future regulations could subject the Company to substantial liability or could cause its manufacturing operations to be suspended.

The Company presently holds a permit from the New Jersey Department of Environmental Protection (“NJDEP”), Division of Environmental Quality, Air Pollution Control Program relating to its operation of certain process equipment, which permit expires in May, 2007. The Company has held such a permit for this equipment on a substantially continuous basis since approximately April, 1989. The Company also has authorization under the New Jersey Pollution Discharge Elimination System/Discharge to Surface Waters General Industrial Stormwater Permit, Permit No. NJ0088315. This permit will expire May 31, 2007.

Employees

As of March 8, 2004, the Company employed approximately 269 people, including 189 in manufacturing, 15 in research and development, 11 in quality assurance, 10 in production services, 25 in sales and marketing, and 19 in a general and administrative capacity. 118 of the Company’s employees are members of the International Brotherhood of Electrical Workers Union, Local 2066, which has a three year labor agreement with the Company expiring in February, 2005. The Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

The Company’s principal manufacturing, engineering, sales and administrative facilities consist of one building totaling approximately 130,000 square feet located on approximately 20 acres of land in Old Bridge, New Jersey (the “**Old Bridge Facility**”) which is owned by the Company. The Old Bridge Facility is encumbered by a mortgage held by Commerce Bank in the principal amount of \$3,092,000 as of December 31, 2003.

Management believes that the Old Bridge Facility is adequate to support the Company’s anticipated needs in 2004. Subject to compliance with applicable zoning and building codes, the Old Bridge real property is large enough to double the size of the plant to accommodate expansion of the Company’s operations should the need arise.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to certain proceedings incidental to the ordinary course of its business, none of which, in the current opinion of management, is likely to have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 2003, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company’s common stock has been traded on the American Stock Exchange since the Company’s initial public offering on December 14, 1995. The following table sets forth for the fiscal quarters indicated, the high and low sale prices for the Company’s Common Stock on the American Stock Exchange.

Market Information

Fiscal Year Ended December 31, 2003:	<u>High</u>	<u>Low</u>
First Quarter	\$ 1.85	\$ 1.30
Second Quarter	2.31	1.43
Third Quarter	2.56	1.89
Fourth Quarter	3.30	1.91

Fiscal Year Ended December 31, 2002:	<u>High</u>	<u>Low</u>
First Quarter	\$ 3.86	\$ 3.20
Second Quarter	3.62	2.70
Third Quarter	2.70	1.10
Fourth Quarter	2.25	1.09

The Company's Common Stock is traded on the American Stock Exchange under the symbol "BDR".

Holders

As of March 19, 2004, the Company had approximately 80 holders of record of the Common Stock. Since a portion of the Company's common stock is held in "street" or nominee name, the Company is unable to determine the exact number of beneficial holders.

Dividends

The Company currently anticipates that it will retain all of its earnings to finance the operation and expansion of its business, and therefore does not intend to pay dividends on its Common Stock in the foreseeable future. Other than in connection with certain "S" corporation distributions prior to its initial public offering, the Company has never declared or paid any cash dividends on its Common Stock. Any determination to pay dividends in the future is at the discretion of the Company's Board of Directors and will depend upon the Company's financial condition, results of operations, capital requirements, limitations contained in loan agreements and such other factors as the Board of Directors deems relevant. The Company's loan agreement with Commerce Bank, N.A. prohibits the payment of cash dividends by the Company on its Common Stock.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data presented below for each of the years ended December 31, 2003, 2002 and 2001, and the selected consolidated balance sheet data as of December 31, 2003 and 2002, are derived from, and are qualified by reference to, the restatement of consolidated financial statements of the Company and notes thereto included elsewhere in this Form 10-K/A. The selected consolidated statement of operations data for the years ended December 31, 2000 and 1999 and the selected consolidated balance sheet data as of December 31, 2001, 2000 and 1999 are derived from audited consolidated financial statements not included herein. The data set forth below is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the restated consolidated financial statements, notes thereto and other financial and statistical information appearing elsewhere herein.

Certain amounts previously reported for the years ended December 31, 2003, 2002 and 2001 have been restated. (See notes 2 and 3 to the consolidated financial statements for a description of the restatements).

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	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net sales	\$ 35,437	\$ 46,951	\$ 53,627	\$ 70,196	\$ 56,805
Cost of goods sold ⁽²⁾	25,948	34,718	37,460	46,974	39,074
Gross profit	9,489	12,233	16,167	23,222	17,731
Operating expenses:					
Selling, general and administrative	9,837	9,060	11,209	13,572	13,598
Research and development	1,833	1,972	2,200	2,125	2,070
Total operating expenses	11,670	11,032	13,409	15,697	15,668
Earnings (loss) from operations ⁽²⁾	(2,181)	1,201	2,758	7,525	2,063
Interest expense, net	1,105	1,074	1,369	1,938	2,002
Equity in loss of Blonder Tongue Telephone, LLC	154	□	□	□	□
Earnings (loss) before income taxes	(3,440)	127	1,389	5,587	61
Provision (benefit) for income taxes ⁽²⁾	(318)	43	509	2,011	2
Earnings (loss) before cumulative effect of change in accounting principle ⁽²⁾	(3,122)	84	880	3,576	59
Cumulative effect of change in accounting principle, net of tax ⁽¹⁾	□	(6,886)	□	□	□
Net (loss) earnings ⁽²⁾	\$ (3,122)	\$ (6,802)	\$ 880	\$ 3,576	\$ 59
Basic earnings (loss) per share before cumulative effect of change in accounting principle ⁽²⁾	\$ (0.41)	\$ 0.01	\$ 0.12	\$ 0.47	\$ 0.01
Cumulative effect of change in accounting principle, net of tax	□	(0.90)	□	□	□
Basic earnings (loss) per share ⁽²⁾	\$ (0.41)	\$ (0.89)	\$ 0.12	\$ 0.47	\$ 0.01
Basic weighted average shares outstanding	7,654	7,604	7,613	7,620	7,916
Diluted earnings (loss) per share before cumulative effect of change in accounting principle ⁽²⁾	\$ (0.41)	\$ 0.01	\$ 0.12	\$ 0.47	\$ 0.01
Cumulative effect of change in accounting principle, net of tax	□	(0.90)	□	□	□
Diluted earnings (loss) per share ⁽²⁾	\$ (0.41)	\$ (0.89)	\$ 0.12	\$ 0.47	\$ 0.01
Diluted weighted average shares outstanding	7,654	7,604	7,637	7,632	7,958
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Consolidated Balance Sheet Data:					
Working capital ⁽²⁾	\$ 11,591	\$ 29,635	\$ 30,527	\$ 27,154	\$ 25,456
Total assets ⁽²⁾	47,990	52,375	64,191	62,834	66,076
Long-term debt (including current maturities)	12,946	16,910	16,195	16,184	20,607
Stockholders' equity ⁽²⁾	30,885	32,585	39,625	39,096	35,247

- (1) Effective January 1, 2002, the Company implemented FAS 142, which resulted in the write off of \$10,760 of the net book value of goodwill, offset by the future tax benefit thereof in the amount of \$3,874.
- (2) Amounts previously reported for the years ended December 31, 2003, 2002 and 2001 have been restated. (See notes 2 and 3 to the consolidated financial statements for a description of the restatements).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's historical results of operations and liquidity and capital resources should be read in conjunction with "Selected Consolidated Financial Data" and the restated consolidated financial statements of the Company and notes thereto appearing elsewhere herein.

Overview

The Company was incorporated in November, 1988, under the laws of Delaware as GPS Acquisition Corp. for the purpose of acquiring the business of Blonder Tongue Laboratories, Inc., a New Jersey corporation which was founded in 1950 by Ben H. Tongue and Isaac S. Blonder to design, manufacture and supply a line of electronics and systems equipment principally for the Private Cable industry. Following the acquisition, the Company changed its name to Blonder Tongue Laboratories, Inc.

The Company's success is due in part to management's efforts to leverage the Company's reputation by broadening its product line to offer one-stop shop convenience to private cable and franchise cable system integrators and to deliver products having a high performance-to-cost ratio.

In December, 1995, the Company successfully concluded an initial public offering of 2,200,000 shares of its Common Stock. Thereafter, in January 1996, the Company's underwriters exercised their over-allotment option, as a result of which an additional 181,735 shares of the Company's Common Stock were sold. The proceeds received by the Company from the sale of its Common Stock in the offering (including shares sold pursuant to the over-allotment option), net of expenses of the offering and certain S Corporation distributions to the Company's principal stockholders, were approximately \$14,045,000. These funds were used to acquire the Company's Old Bridge Facility and to reduce the Company's outstanding bank debt. The Company has further enhanced its liquidity through a long-term loan secured by a mortgage against the Old Bridge Facility.

On March 26, 1998, the Company acquired all of the assets and technology rights, including the SMI Interdiction product line, of the interdiction business (the "**Interdiction Business**") of Scientific Atlanta, Inc. ("**Scientific**") for a purchase price consisting of (i) \$19 million in cash, (ii) 67,889 shares of the Company's common stock, (iii) a warrant to purchase 150,000 additional shares of the Company's common stock at an exercise price of \$14.25 per share and (iv) assumption by the Company of certain obligations under executory contracts with vendors and customers and certain warranty obligations and other current liabilities of the Interdiction Business. The Company is utilizing the SMI Interdiction product line acquired from Scientific, which has been engineered primarily to serve the franchise cable market, as a supplement to the Company's VideoMask Interdiction products, which are primarily focused on the private cable market.

During June, 2002, the Company formed a venture with Priority Systems, LLC and Paradigm Capital Investments, LLC for the purpose of acquiring the rights-of-entry for certain multiple dwelling unit cable television systems (the "**Systems**") owned by affiliates of Verizon Communications, Inc. The venture entity, BDR Broadband, 90% of the outstanding capital stock of which is owned by the Company, acquired the Systems, which are comprised of approximately 3,070 existing MDU cable television subscribers and approximately 7,520 passings. BDR Broadband paid approximately \$1,880,000 for the Systems, subject to adjustment, which constitutes a purchase price of \$575 per subscriber. The final closing date for the transaction was on October 1, 2002. The Systems were cash flow positive beginning in the first year. To date, the Systems have been upgraded with approximately \$890,000 of interdiction and other products of the Company. It is planned that the Systems will be upgraded with approximately \$500,000 of additional interdiction and other products of the Company over the course of operation. During July, 2003, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Paradigm Capital Investments, LLC, for an aggregate purchase price of \$35,000, resulting in an increase in the Company's stake in BDR Broadband from 80% to 90%.

In consideration for its majority interest in BDR Broadband, the Company advanced to BDR Broadband \$250,000, which was paid to the sellers as a down payment against the final purchase price for the Systems. The Company also agreed to guaranty payment of the aggregate purchase price for the Systems by BDR Broadband. The approximately \$1,630,000 balance of the purchase price was paid by the Company on behalf of BDR Broadband on November 30, 2002, pursuant to the terms and in satisfaction of certain promissory notes (the "**Seller Notes**") executed by BDR Broadband in favor of the sellers.

The Company believes that similar opportunities currently exist to acquire additional rights of entry for multiple dwelling unit cable television systems at historically low prices. The Company also believes that the model it devised for acquiring and operating the Systems will be successful and can be replicated for other transactions with the same or new venture partners. While the Company is not actively seeking opportunities to acquire additional rights of entry at the present time, if such opportunities arise, the Company would evaluate and consider them. Moreover, even if attractive opportunities arise, the Company may need financing to acquire the rights of entry for such cable systems. Given that financing may not be available on acceptable terms or at all, the Company may be unable to pursue these opportunities.

In March, 2003, the Company entered into a series of agreements, pursuant to which the Company acquired a 20% minority interest in NetLinc Communications, LLC ("**NetLinc**") and a 35% minority interest in Blonder Tongue Telephone, LLC ("**BTT**") (to which the Company has licensed its name). The aggregate purchase price consisted of (i) up to \$3,500,000 payable over a minimum of two years, plus (ii) 500,000 shares of the Company's common stock. NetLinc owns patents, proprietary technology and know-how for certain telephony products that allow Competitive Local Exchange Carriers ("**CLECs**") to competitively provide voice service to MDUs. Certain distributorship agreements were also concurrently entered into among NetLinc, BTT and the Company pursuant to which the Company ultimately acquired the right to distribute NetLinc's telephony products to private and franchise cable operators as well as to all buyers for use in MDU applications. BTT partners with CLECs to offer primary voice service to MDUs, receiving a portion of the line charges due from the CLECs' telephone customers, and the Company offers for sale a line of telephony equipment to complement the voice service.

As a result of NetLinc's inability to retain a contract manufacturer to manufacture and supply the products in a timely and consistent manner in accordance with the requisite specifications, in September, 2003 the parties agreed to restructure the terms of their business arrangement entered into in March, 2003. The restructured business arrangement was accomplished by amending certain of the agreements previously entered into and entering into certain new agreements. Some of the principal terms of the restructured arrangement include increasing the Company's economic ownership in NetLinc from 20% to 50% and in BTT from 35% to 50%, all at no additional cost to the Company. The cash portion of the purchase price in the venture was decreased from \$3,500,000 to \$1,166,667 and the then outstanding balance of \$342,000 was paid in installments of \$50,000 per week until it was paid in full in October, 2003. In addition, of the 500,000 shares of common stock issued to BTT as the non-cash component of the purchase price (fair valued at \$1,030,000), one-half (250,000 shares) have been pledged to the Company as collateral to secure BTT's obligation to repay the \$1,167,667 cash component of the purchase price to the Company via preferential distributions of cash flow under BTT's limited liability company operating agreement. Under the restructured arrangement, the Company can purchase similar telephony products directly from third party suppliers other than NetLinc and, in connection therewith, the Company would pay certain future royalties to NetLinc and BTT from the sale of these products by the Company. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not anticipate purchasing products from NetLinc in the near term. NetLinc, however, continues to own intellectual property, which may be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements.

In addition to receiving incremental revenues associated with its direct sales of the telephony products, the Company also anticipates receiving a portion of BTT's net income derived from voice service revenues through its 50% stake in BTT. While the events related to the restructuring resulted in a delay in the Company's anticipated 2003 revenue stream from the sale of telephony products, the Company believes that these revised terms are beneficial and will result in the Company enjoying higher gross margins on telephony equipment unit sales as well as an incrementally higher proportion of telephony service revenues. Material incremental revenues associated with the sale of telephony products are not presently anticipated to be received until at least the third quarter of 2004.

Restatement

Subsequent to the Company's issuance of its consolidated financial statements for the year ended December 31, 2003, the Company determined that a vendor's account payable balance was incorrectly recorded in 2001 and 2002 due to certain inventories that were received from the vendor and not correctly recorded. These incorrect entries resulted in accounts payable being understated in 2001 and 2002, cost of goods sold being understated in 2001 and 2002, net income being overstated in 2001 and net loss being understated in 2002 and 2003. The Company restated its consolidated financial statements for each of the three years ended December 31, 2003 to reflect the correction of the vendor's account payable balance and the related impact to costs of goods sold. See Note 2 to the consolidated financial statements for a description of the restatement. In addition, as reported in

the Company's Form 10-Q for the quarter ended June 30, 2004, the Company reclassified certain inventory not anticipated to be sold in the succeeding twelve months as non-current and reflected such reclassification on the December 31, 2003 balance sheet. The restatement also reflects this reclassification of certain inventory as non-current. See Note 3 to the consolidated financial statements for a description of the reclassification of inventory.

Results of Operations

The following table sets forth, for the fiscal periods indicated, certain consolidated statement of earnings data (as restated) as a percentage of net sales. The Company believes that the product sales in 2004 will be slightly better than in 2003, with increases in the telephony and high speed data product lines accounting for most of the growth. Gross margin, although impossible to predict due to the dependence on product mix, is expected to remain relatively constant.

	Year Ended December 31,		
	2003	2002	2001
		As Restated	
Net sales	100.0%	100.0%	100.0%
Costs of goods sold	73.2	73.9	69.9
Gross profit	26.8	26.1	30.1
Selling expenses	10.5	8.7	9.3
General and administrative expenses	17.3	10.6	11.6
Research and development expenses	5.2	4.2	4.1
Earnings (loss) from operations	(6.2)	2.6	5.1
Other expense, net	3.5	2.3	2.5
Earnings (loss) before income taxes and before cumulative effect of change in accounting principle	(9.7)	.3	2.6

2003 Compared with 2002

Net Sales. Net sales decreased \$11,514,000 or 24.5% to \$35,437,000 in 2003 from \$46,951,000 in 2002. The decrease is attributed to a decrease in capital spending by cable system operators and weak overall economic conditions. The decrease in capital spending by cable system operators was, in part, the result of the bankruptcy of WSNET, which had been a leading provider of programming to the private cable industry. As a result of this event, demand for the Company's digital products, particularly its Motorola set-top box and QQQT transcoder line, were adversely affected. Digital product sales were \$3,312,000 in 2003 compared to \$6,265,000 in 2002. Included in net sales are revenues from BDR Broadband of \$1,094,000 and \$250,000 for 2003 and 2002, respectively.

Cost of Goods Sold. Cost of goods sold decreased to \$25,948,000 for 2003 from \$34,718,000 for 2002 and decreased as a percentage of sales to 73.2% from 73.9%. The decrease as a percentage of sales is primarily attributable to a higher portion of sales during 2003 being comprised of higher margin products, offset by an increase in the inventory reserve of \$1,576,000 in 2003 as compared to an increase in inventory reserve of \$500,000 in 2002.

Selling Expenses. Selling expenses decreased to \$3,714,000 for 2003 from \$4,069,000 in 2002 but increased as a percentage of sales to 10.5% for 2003 from 8.7% for 2002. This \$355,000 decrease is primarily attributable to a reduction in advertising of \$122,000 achieved through implementation of expense control programs and a reduction of freight of \$145,000 and commissions of \$99,000 due to reduced sales levels.

General and Administrative Expenses. General and administrative expenses increased to \$6,123,000 for 2003 from \$4,991,000 for 2002 and increased as a percentage of sales to 17.3% for 2003 from 10.6% for 2002. The \$1,132,000 increase can be primarily attributed to an increase of \$180,000 in bad debt expense and an increase of \$1,000,000 in operating expenses related to BDR Broadband, offset by a decrease in salaries and fringe benefits of \$176,000 due to a reduction in head count.

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Research and Development Expenses. Research and development expenses decreased to \$1,833,000 in 2003 from \$1,972,000 in 2002. The \$139,000 decrease is primarily due to a decrease in salaries and fringe benefits of \$184,000 due to a reduction in head count, offset by an increase in licensing fees of \$38,000. Research and development expenses as a percentage of sales, increased to 5.2% in 2003 from 4.2% in 2002.

Operating Income (Loss). Operating loss of \$2,181,000 for 2003 represents a decrease of \$3,382,000 from operating income of \$1,201,000 for 2002. Operating income (loss) as a percentage of sales decreased to (6.2%) in 2003 from 2.6% in 2002.

Interest Expense. Interest expense increased to \$1,105,000 in 2003 from \$1,074,000 in 2002. The increase is the result of higher average borrowing and higher interest rates.

Income Taxes. The provision (benefit) for income taxes for 2003 decreased to a benefit of \$318,000 from an expense of \$43,000 for 2002 as a result of the current year loss of \$3,440,000 as compared to income of \$127,000 in 2002. The benefit for the current year loss has been subject to a valuation allowance of \$1,028,000 since the realization of the deferred tax benefit is not considered more likely than not.

Cumulative Effect of Change in Accounting Principle. During the first three months of 2002, the Company implemented FAS 142, which resulted in the write off of \$10,760,000 of the net book value of goodwill, offset by the future tax benefit thereof in the amount of \$3,874,000. The net cumulative effect of this change in accounting principles was a one-time non-recurring \$6,886,000 charge against earnings in the first three months of 2002.

2002 Compared with 2001

Net sales. Net sales decreased \$6,676,000 or 12.5%, to \$46,951,000 in 2002 from \$53,627,000 in 2001. The decrease in sales is primarily attributed to a decrease in capital spending by cable system operators and weak overall economic conditions. The substantially higher sales recorded in the prior fiscal year were primarily attributable to higher interdiction sales. Net sales included approximately \$3,736,000 of interdiction equipment for 2002 compared to approximately \$7,962,000 in 2001.

Cost of Goods Sold. Cost of goods sold decreased to \$34,718,000 for 2002 from \$37,460,000 for 2001, primarily due to decreased volume, and increased as a percentage of sales to 73.9% in 2002 from 69.9% in 2001. The increase as a percentage of sales was caused primarily by a greater proportion of sales during the period being comprised of lower margin products, including the Motorola QAM decoder which was introduced in the fourth quarter of 2001.

Selling Expenses. Selling expenses decreased to \$4,069,000 in 2002 from \$5,009,000 in 2001, and decreased as a percentage of sales to 8.7% in 2002 from 9.3% in 2001. The \$940,000 decrease is primarily attributable to a decrease in wages and fringe benefits of \$369,000 related to a decrease in headcount, along with a decrease in advertising of \$419,000 achieved through implementation of expense control programs.

General and Administrative Expenses. General and administrative expenses decreased to \$4,991,000 in 2002 from \$6,200,000 in 2001, and decreased as a percentage of sales to 10.6% in 2002 from 11.6% in 2001. The \$1,209,000 decrease is primarily attributable to a \$970,000 reduction in amortization expense due to the adoption of FAS 142 which required the Company to discontinue amortizing goodwill, as well as a reduction in bad debts of \$180,000.

Research and Development Expenses. Research and development expenses decreased to \$1,972,000 in 2002 from \$2,200,000 in 2001, and increased as a percentage of sales to 4.2% in 2002 from 4.1% in 2001. The \$228,000 decrease is primarily attributable to a \$56,000 decrease in licensing fees, a \$65,000 decrease in consulting fees, a \$34,000 decrease in department supplies, and a \$30,000 decrease in salaries and fringe benefits due to a decrease in headcount.

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Earnings from Operations. Earnings from operations decreased 56.5% to \$1,201,000 in 2002 from \$2,758,000 in 2001. Earnings from operations as a percentage of sales decreased to 2.6% in 2002 from 5.1% in 2001.

Other Income (Expense). Other income (expense) consisted of \$1,074,000 of interest expense in 2002. Other income (expense) in 2001 consisted of \$1,369,000 of interest expense. The decrease in interest expense is primarily attributable to a reduction in the Company's long term debt and lower average interest rates.

Income Taxes. The provision for income taxes for 2002 decreased to \$43,000 from \$509,000 in 2001, as a result of a decrease in taxable income. The effective tax rate decreased to 34% in 2002 from 36.6% in 2001 due to a writeoff of overaccrued federal and state taxes.

Cumulative Effect. During the year ended December 31, 2002, the Company implemented FAS 142, which resulted in the write off of \$10,760,000 of the net book value of goodwill, offset by the future tax benefit thereof in the amount of \$3,874,000. The net cumulative effect of this change in accounting principles was a non-recurring \$6,886,000 charge against earnings in the first three months of 2002.

Inflation and Seasonality

Inflation and seasonality have not had a material impact on the results of operations of the Company. Fourth quarter sales in 2003 as compared to other quarters were slightly impacted by fewer production days. The Company expects sales each year in the fourth quarter to be impacted by fewer production days.

Liquidity and Capital Resources

As of December 31, 2003 and 2002, the Company's working capital was \$11,591,000 and \$29,635,000, respectively. The decrease in working capital is attributable primarily to a reclassification of \$11,106,000 of inventory to non-current, a decrease of long-term debt of \$3,964,000 and an investment in Blonder Tongue Telephone, LLC of \$1,167,000.

The Company's net cash provided by operating activities for the year ended December 31, 2003 was \$5,686,000 primarily due to a reduction of \$2,596,000 in inventory and \$671,000 in accounts receivable and an increase in accounts payable and accrued expenses of \$1,474,000, compared to net cash provided by operating activities for the year ended December 31, 2002 of \$1,257,000.

Cash used in investing activities was \$1,669,000, which was attributable primarily to capital expenditures for new computers and test equipment of \$954,000 and \$1,167,000 cash investment in Blonder Tongue Telephone, LLC, offset by collection of a note receivable of \$630,000. The Company does not have any present plans or commitments for material capital expenditures for fiscal year 2004, other than anticipated expenditures of approximately \$500,000 in connection with certain upgrades of the BDR Broadband Systems.

Cash used in financing activities was \$4,080,000 for the period ended December 31, 2003, comprised primarily of repayment of long-term debt of \$14,460,000 offset by \$10,496,000 in borrowing of long term debt.

On March 20, 2002 the Company entered into a credit agreement with Commerce Bank, N.A. for a \$19,500,000 credit facility, comprised of (i) a \$7,000,000 revolving line of credit under which funds may be borrowed at LIBOR, plus a margin ranging from 1.75% to 2.50%, in each case depending on the calculation of certain financial covenants, with a floor of 5% through March 19, 2003, (ii) a \$9,000,000 term loan which bore interest at a rate of 6.75% through September 30, 2002, and thereafter at a fixed rate ranging from 6.50% to 7.25% to reset quarterly depending on the calculation of certain financial covenants and (iii) a \$3,500,000 mortgage loan bearing interest at 7.5%. Borrowings under the revolving line of credit are limited to certain percentages of eligible accounts receivable and inventory, as defined in the credit agreement. The credit facility is collateralized by a security interest in all of the Company's assets. The agreement also contains restrictions that require the Company to maintain certain financial ratios as well as restrictions on the payment of cash dividends. The initial maturity date of the line of credit with Commerce Bank was March 20, 2004. The term loan requires equal monthly principal payments of \$187,000 and matures on April 1, 2006. The mortgage loan requires equal monthly principal payments of \$19,000 and matures on April 1, 2017. The mortgage loan is callable after five years at the lender's option.

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In November 2003, the Company's credit agreement with Commerce Bank was amended to modify the interest rate and amortization schedule for certain of the loans thereunder, as well as to modify one of the financial covenants. Beginning November 1, 2003, the revolving line of credit bore interest at the prime rate plus 1.5%, with a floor of 5.5% (5.5% at December 31, 2003), and the term loan bore interest at a fixed rate of 7.5%. Beginning December 1, 2003, the term loan required equal monthly principal payments of \$193,000 plus interest with a final payment on April 1, 2006 of all remaining unpaid principal and interest.

At March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003, the Company was unable to meet one of its financial covenants required under its credit agreement with Commerce Bank, which non-compliance was waived by the Bank effective as of each such date.

In March 2004, the Company's credit agreement with Commerce Bank was amended to (i) extend the maturity date of the line of credit until April 1, 2005, (ii) reduce the maximum amount that may be borrowed under the line of credit to \$6,000,000, (iii) suspend the applicability of the cash flow coverage ratio covenant until March 31, 2005, (iv) impose a new financial covenant requiring the Company to achieve certain levels of consolidated pre-tax income on a quarterly basis commencing with the fiscal quarter ended March 31, 2004, and (v) require that the Company make a prepayment against its outstanding term loan to the Bank equal to 100% of the amount of any prepayment received by the Company on its outstanding note receivable from a customer, up to a maximum amount of \$500,000.

At December 31, 2003, there was \$4,136,000 outstanding under the revolving line of credit. The Company has the ability to borrow \$2,864,000 under its line of credit, however only \$2,167,000 was available at December 31, 2003, based on the Company's current collateral. This commitment expires on April 1, 2005.

The average amount outstanding on the Company's line of credit during 2003 was \$5,269,000 at a weighted average interest rate of 5.0%. The maximum amount outstanding on the line of credit during 2003 was \$6,171,000.

The Company has from time to time experienced short-term cash requirement issues. In 2002, the Company paid approximately \$1,880,000 in connection with acquiring its majority interest in BDR Broadband and paying off the Seller Notes for BDR Broadband. In addition, the Company will incur additional obligations related to royalties, if any, in connection with its \$1,167,000 cash investments during 2003, in NetLinc and BTT. While the Company's existing lender agreed to allow the Company to fund both the BDR Broadband obligations and the NetLinc/BTT obligations using its line of credit, such lender did not agree to increase the maximum amount available under such line of credit. These expenditures, coupled with the March 2004 amendment to the Company's credit agreement with Commerce Bank described above, and certain near-term funding requirements relating to the purchase of a large quantity of high-speed data products, will reduce the Company's working capital. The Company is exploring various alternatives to enhance its working capital, including inventory-related pricing and product reengineering efforts, as well as restructuring its long-term debt with Commerce Bank or seeking alternative financing. During 2003, BDR Broadband had positive cash flow, which is expected to continue in 2004. As such, BDR Broadband is not presently anticipated to adversely impact the Company's working capital.

Contractual Obligations and Commitments

At December 31, 2003, the Company's contractual obligations and commitments to make future payments are as follows:

	<u>Total</u>	<u>Payment Due by Period</u>			<u>More than 5 years</u>
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	
Long-Term Debt Obligations	\$ 12,473,000	\$ 3,043,000	\$ 7,039,000	\$ 466,000	\$ 1,925,000
Capital Lease Obligations	473,000	158,000	315,000		
Operating Leases	120,000	89,000	31,000		
Purchase Commitments (1)	17,489,000	17,489,000			
Consulting Agreement	152,000	152,000			
Interest on Long-Term Debt and Capital Lease Obligations	1,999,000	779,000	752,000	324,000	144,000
Total Contractual Obligations	\$ 32,706,000	\$ 21,710,000	\$ 8,137,000	\$ 790,000	\$ 2,069,000

(1) Purchase commitments consist primarily of obligations to purchase certain raw materials and finished goods inventory to be utilized in the ordinary course of business.

Critical Accounting Policies

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States. Preparing financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following paragraphs include a discussion of some critical areas where estimates are required. You should also review Note 1 to the financial statements for further discussion of significant accounting policies.

Revenue Recognition

The Company records revenue when products are shipped. Legal title and risk of loss with respect to the products pass to customers at the point of shipment. Customers do not have a right to return products shipped.

Inventory and Obsolescence

The Company periodically analyzes anticipated product sales based on historical results, current backlog and marketing plans. Based on these analyses, the Company anticipates that certain products will not be sold during the next twelve months. Inventories that are not anticipated to be sold in the next twelve months, have been classified as non-current. This procedure has been applied to the December 31, 2003 inventories and, accordingly, \$11,106,000 has been reclassified from current assets to non-current and current deferred income tax assets of \$1,390,000 (related to the reserve for excess inventory) have also been reclassified to non-current.

Over 60% of the non-current inventories are comprised of raw materials. The Company has established a program to use interchangeable parts in its various product offerings and to modify certain of its finished goods to better match customer demands. In addition the Company has instituted additional marketing programs to dispose of the slower moving inventories.

The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. During 2003 and 2002, the Company recorded an increase to its reserve of \$1,576,000 and \$500,000 respectively. The Company believes reserves are adequate and inventories are reflected at net realizable value.

Accounts Receivable and Allowance for Doubtful Accounts

Management periodically performs a detailed review of amounts due from customers to determine if accounts receivable balances are impaired based on factors affecting the collectibility of those balances. Management's estimates of the allowance for doubtful accounts requires management to exercise significant judgment about the timing, frequency and severity of collection losses, which affects the allowances and net income. As these factors are difficult to predict and are subject to future events that may alter management assumptions, these allowances may need to be adjusted in the future.

Long-Lived Assets

On a periodic basis, management assesses whether there are any indicators that the value of the Company's long-lived assets may be impaired. An asset's value may be impaired only if management's estimate of the aggregate future cash flows, on an undiscounted basis, to be generated by the asset are less than the carrying value of the asset.

If impairment has occurred, the loss shall be measured as the excess of the carrying amount of the asset over the fair value of the long-lived asset. The Company's estimates of aggregate future cash flows expected to be generated by each long-lived asset are based on a number of assumptions that are subject to economic and market uncertainties. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in their impairment analyses may not be achieved.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("**FASB**") issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("**FIN 46**"). FIN 46 addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. FIN 46 expands existing accounting guidance regarding when a company should include in its financial statements the assets, liabilities, and activities of another entity. Many variable interest entities have commonly been referred to as special-purpose entities or off-balance sheet structures. In December 2003, the FASB issued Interpretation No. 46R ("**FIN 46R**"), a revision to FIN 46. FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. The Company believes that the adoption of FIN 46 will not have a material impact on the Company's financial position, results of operations or cash flows.

In July 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity ("**SFAS 150**"). SFAS 150 requires the shares that are mandatorily redeemable for cash or other assets at a specified or determinable date or upon an event certain to occur to be classified as liabilities, not as part of shareholders' equity. This pronouncement does not currently impact the Company's financial position, results of operations or cash flows.

Emerging Issues Task Force ("**EITF**") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The EITF addresses the accounting for revenue generating arrangements involving multiple deliverables. This EITF does not currently apply to the Company.

Additional Factors That May Affect Future Results and Market Price of Stock

Blonder Tongue's business operates in a rapidly changing environment that involves a number of risks, some of which are beyond the Company's control. The following discussion highlights some of these risks, which are not otherwise addressed elsewhere in this Annual Report. There can be no assurance that the Company will anticipate the evolution of industry standards in cable television or the communications industry generally, changes in the market and customer needs, or that technologies and applications under development by the Company will be successfully developed, or if they are successfully developed, that they will achieve market acceptance. The competition to attract and retain highly skilled engineering, manufacturing, marketing and managerial personnel is intense. Capital spending by cable operators for constructing, rebuilding, maintaining or upgrading their systems (upon which the Company's sales and profitability are dependent) is dependent on a variety of factors, including access to financing, demand for their cable services, availability of alternative video delivery technologies, and general economic conditions. Factors such as announcements of technological innovations or new products by the Company, its competitors or third parties, quarterly variations in the Company's actual or anticipated results of operations, market conditions for emerging growth stocks or cable industry stocks in general, or the failure of revenues or earnings in any quarter to meet the investment community's expectations, may cause the market price of the Company's Common Stock to fluctuate significantly. The stock price may also be affected by broader market trends unrelated to the Company's performance.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company's financial instruments and positions represents the potential loss arising from adverse changes in interest rates. At December 31, 2003 and 2002 the principal amount of the Company's aggregate outstanding variable rate indebtedness was \$4,136,000 and \$5,650,000, respectively. A hypothetical 100 basis point adverse change in interest rates would have had an annualized unfavorable impact of approximately \$41,000 and \$57,000, respectively, on the Company's earnings and cash flows based upon these year-end debt levels. At December 31, 2003, the Company did not have any derivative financial instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference from the consolidated financial statements and notes thereto of the Company, which are attached hereto beginning on page 31.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of its principal executive officer and principal financial officer, the Company evaluated the design and operation of the Company's disclosure controls and procedures as of December 31, 2003. Based upon the evaluation, when the original Form 10-K was filed, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information required to be included in the Company's periodic SEC reports. In October, 2004, subsequent to the original Form 10-K filing, the Company identified an error in accounting for inventories received that were not correctly recorded. This error resulted in a vendor's account payable balance being understated and the related understatement of cost of goods sold. As a result, the Company concluded that its previously reported financial statements for each of the three years ended December 31, 2003 should be restated to reflect the increase in accounts payable and related increase to cost of goods sold and deferred income taxes. See Note 2 to the consolidated financial statements for a description of the restatement. In addition, in August, 2004 the Company determined that as of December 31, 2003 certain products would not be sold in the next twelve months. Accordingly, \$11,106,000 of inventories have been reclassified as non-current inventory as of December 31, 2003. See Notes 1(c) and 3 to the consolidated financial statements for a description of the inventory reclassification.

In connection with the completion of its audit of the issuance of the Company's restated consolidated financial statements for the fiscal years ended December 31, 2001, 2002 and 2003, the Company's independent auditors, BDO Seidman, LLP (BDO), communicated to the Company's Audit

Committee that the following matters involving the Company's internal controls and operations were considered to be reportable conditions, as defined under standards established by the American Institute of Certified Public Accountants or AICPA:

- Lack of reconciliation of accounts payable balances to vendor accounts.
- inadequate review of details of accounts payable.
- inadequate review of slow moving inventories.

Reportable conditions are matters coming to the attention of the independent auditors that in their judgment, relate to significant deficiencies in the design or operation of internal controls and could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, BDO has advised the Company that they consider these matters, which are listed above, to be a material weaknesses that may increase the possibility that a material misstatement in the Company's financial statements might not be prevented or detected by its employees in the normal course of performing their assigned functions.

To remediate these weaknesses, in August, 2004 the Company instituted procedures to review inventory quantities against sales projections and in November, 2004 the Company instituted procedures to reconcile accounts payable to vendor accounts and also modified certain accounts payable and inventory related policies and procedures, provided education regarding such policies and procedures to relevant staff members and has implemented enhanced monitoring of such policies and procedures and related accounting policies. In connection with restating the Company's financial statements as provided in this Form 10-K/A, the Company, under the supervision and with the participation of its principal executive officer and principal financial officer, has concluded that, as a result of the foregoing modifications to certain policies and procedures, the Company believes the deficiencies have been remediated. The Company's principal executive officer and principal financial officer did not note any other deficiencies in the Company's disclosure controls and procedures during their evaluation. Other than the matters discussed above, the Company's principal executive officer and principal financial officer have determined that the Company's disclosure controls and procedures were effective as of December 31, 2003 in timely alerting them to material information required to be included in the Company's periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote; however, the Company's principal executive officer and principal financial officer have concluded that, other than as noted above, the Company's disclosure controls and procedures were effective at a reasonable assurance level. The Company continues to monitor the effectiveness of its disclosure controls and procedures on an ongoing basis.

In addition, the Company reviewed its internal control over financial reporting and there have been no changes during the Company's fourth fiscal quarter of 2003 in the Company's internal control over financial reporting, to the extent that elements of internal control over financial reporting are subsumed within disclosure controls and procedures, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information about the Company's directors and executive officers, its Audit Committee and the Audit Committee's "audit committee financial expert," and the procedures by which nominees are recommended to the Board, is incorporated by reference from the discussion under the heading "Directors and Executive Officers" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders. Information about compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the discussion under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders.

Each of the Company's directors, officers and employee are required to comply with the Blonder Tongue Laboratories, Inc. Code of Ethics adopted by the Company. The Code of Ethics sets forth policies covering a broad range of subjects and requires strict adherence to laws and regulations applicable to the Company's business. The Code of Ethics is available on the Company's website at www.blondertongue.com, under the "Investor Relations Code of Ethics" captions. The Company will post to its website any amendments to the Code of Ethics, or waiver from the provisions thereof for executive officers or directors, under the "Investor Relations Code of Ethics" caption.

ITEM 11. EXECUTIVE COMPENSATION

Information about director and executive compensation is incorporated by reference from the discussion under the headings "Directors' Compensation," "Executive Compensation," "Report of Compensation Committee on Executive Compensation Policies" and "Comparative Stock Performance" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information about security ownership of certain beneficial owners and management is incorporated by reference from the discussion under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders.

EQUITY COMPENSATION PLANS

The following table provides certain summary information as of December 31, 2003, concerning compensation plans (including individual compensation arrangements) of the Company under which shares of the Company's Common Stock may be issued.

Equity Compensation Plan Information

Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights(#)	Weighted Average Exercise Price Of Outstanding Options, Warrants And Rights(\$)	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In The First Column) (#)
Equity Compensation Plans Approved By Securities Holders	1,219,611	\$5.19	161,328 ⁽¹⁾
Equity Compensation Plans Not Approved By Securities Holders	10,000 ⁽²⁾	\$6.88	0
Total	1,229,611	\$5.20	161,328

(1) Includes 25,000 shares of the Company's Common Stock available for issuance as restricted stock under the 1995 Long Term Incentive Plan (the "1995 Plan").

(2) In 1996 the Board of Directors granted a non-qualified option for 10,000 shares of the Company's Common Stock to Gary P. Scharnett at an original exercise price of \$10.25 per share, which was repriced to \$6.88 per share on September 17, 1998. The option expires in 2006. At the time of the grant, Mr. Scharnett was not a director of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information about certain relationships and transactions with related parties is incorporated by reference from the discussion under the heading "Certain Relationships and Related Transactions" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about procedures related to the engagement of the independent auditors and fees and services paid to the independent auditors is incorporated by reference from the discussion under the headings "Audit and Other Fees Paid to Independent Auditors" and "Pre-Approval Policy for Services by Independent Auditors" in the Company's proxy statement for its 2004 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements and Supplementary Data.

Report of Independent Certified Public Accountants	32
Consolidated Balance Sheets as of December 31, 2003 and 2002	33
Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001	34
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2003, 2002 and 2001	35
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001	36
Notes to Consolidated Financial Statements	37

(a)(2) Financial Statement Schedules.

Included in Part IV of this report:

Schedule II. Valuation and Qualifying Accounts and Reserves

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the applicable instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

The exhibits are listed in the Index to Exhibits appearing below and are filed herewith or are incorporated by reference to exhibits previously filed with the Commission.

(b) On November 12, 2003, the Company filed a Form 8-K relating to Item 12 of such Form. The information under Item 12 related to the Company's November 10, 2003 press release announcing its unaudited financial results for the third quarter ended September 30, 2003.

(c) Index to Exhibits:

<u>Exhibit #</u>	<u>Description</u>	<u>Location</u>
3.1	Restated Certificate of Incorporation of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.1 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
3.2	Restated Bylaws of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.2 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
4.1	Specimen of stock certificate.	Incorporated by reference from Exhibit 4.1 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.1	Consulting Agreement, dated January 1, 1995, between Blonder Tongue Laboratories, Inc. and James H. Williams.	Incorporated by reference from Exhibit 10.3 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.2	1994 Incentive Stock Option Plan.	Incorporated by reference from Exhibit 10.5 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.3	1995 Long Term Incentive Plan.	Incorporated by reference from Exhibit 10.6 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.4	First Amendment to the 1995 Plan.	Incorporated by reference from Exhibit 10.5(a) to Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1997.
10.5	Second Amendment to the 1995 Plan.	Incorporated by reference from Exhibit 4.3 to S-8 Registration Statement No. 333-52519 originally filed on May 13, 1998.
10.6	Third Amendment to the 1995 Plan.	Incorporated by reference from Exhibit 4.4 to S-8 Registration Statement No. 333-37670, originally filed May 23, 2000.
10.7	Fourth Amendment to the 1995 Plan.	Incorporated by reference from Exhibit 4.5 to S-8 Registration Statement No. 33-96993, originally filed July 24, 2002.
10.8	Amended and Restated 1996 Director Option Plan.	Incorporated by reference from Appendix B to Registrant's Proxy Statement for its 1998 Annual Meeting of Stockholders, filed March 27, 1998.
10.9	First Amendment to the Amended and Restated 1996 Director Option Plan.	Incorporated by reference from Exhibit 4.2 to S-8 Registration Statement No. 333-111367, originally filed on December 19, 2003.
10.10	Form of Indemnification Agreement entered into by Blonder Tongue Laboratories, Inc. in favor of each of its Directors and Officers.	Incorporated by reference from Exhibit 10.10 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.

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<u>Exhibit #</u>	<u>Description</u>	<u>Location</u>
10.11	VideoCipher® IICM Commercial Descrambler Module Master Purchase and License Agreement, dated August 23, 1990, between Blonder Tongue Laboratories, Inc. and Cable/Home Communication Corp.	Incorporated by reference from Exhibit 10.11 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
□10.12	Patent License Agreement, dated August 21, 1995, between Blonder Tongue Laboratories, Inc. and Philips Electronics North America Corporation.	Incorporated by reference from Exhibit 10.12 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
□10.13	Interdiction Technology License Agreement, dated August 21, 1995, between Blonder Tongue Laboratories, Inc. and Philips Broadband Networks, Inc.	Incorporated by reference from Exhibit 10.13 to Registrant's S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.14	Bargaining Unit Pension Plan.	Incorporated by reference from Exhibit 10.22 to S-1 Registration Statement No. 33-98070, filed October 12, 1995, as amended.
10.15	Executive Officer Bonus Plan.	Incorporated by reference from Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1997, filed May 13, 1997.
10.16	Second Amendment to Consulting and Non-Competition Agreement between Registrant and James H. Williams, dated as of June 30, 2000.	Incorporated by reference from Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2000, filed August 14, 2000.
10.17	Loan and Security Agreement dated March 20, 2002 between Blonder Tongue Laboratories, Inc. and Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.
10.18	Revolving Credit Note dated March 20, 2002 by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.
10.19	Term Loan A Note dated March 20, 2002 by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.
10.20	Term Loan B Note dated March 20, 2002 by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.
10.21	Mortgage, Security Agreement and Fixture Filing dated March 20, 2002, between Blonder Tongue Laboratories, Inc. and Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.
10.22	Assignment of Rents and Leases made by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002.

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|---|---|
| 10.23 Patent Security Agreement dated March 20, 2002 by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A. | Incorporated by reference from Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 2002, filed May 15, 2002. |
|---|---|

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<u>Exhibit #</u>	<u>Description</u>	<u>Location</u>
10.24	Trademark Security Agreement dated March 20, 2002 by Blonder Tongue Laboratories, Inc. in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.8 to Registrant's Quarterly Report on Form 10□Q for the period ending March 31, 2002, filed May 15, 2002.
10.25	Surety Agreement dated March 20, 2002 by Blonder Tongue Investment Company in favor of Commerce Bank, N.A.	Incorporated by reference from Exhibit 10.9 to Registrant's Quarterly Report on Form 10□Q for the period ending March 31, 2002, filed May 15, 2002.
10.26	Capital Contribution Agreement between Blonder Tongue Telephone, LLC, Resource Investment, LLC, H. Tyler Bell, NetLinc Communications, LLC and Blonder Tongue Laboratories, Inc., dated March 26, 2003.	Incorporated by referenced from Exhibit 10.1 to Registrant's Quarterly Report on Form 10□Q for the period ending March 31, 2003 and filed May 15, 2003.
10.27	Amendment to Capital Contribution Agreement and Termination of Letter Agreement among Blonder Tongue Telephone, LLC, Resource Investment Group, LLC, H. Tyler Bell, NetLinc Communications, LLC and Blonder Tongue Laboratories, Inc., dated as of September 11, 2003.	Incorporated by reference from Exhibit 10.1 to Registrant's Quarterly Report on Form 10□Q for the period ending September 30, 2003, filed November 14, 2003.
10.28	Loan and Security Agreement dated November 19, 2003 between Blonder Tongue Laboratories, Inc. and Robert J. Pallé, Jr.	Incorporated by reference from Exhibit 10.28 to Registrant's Annual Report on Form 10□K for the period ending December 31, 2003, filed March 30, 2004.
10.29	Non□Recourse Line of Credit Note dated November 19, 2003 by Blonder Tongue Laboratories, Inc. in favor of Robert J. Pallé, Jr.	Incorporated by reference from Exhibit 10.29 to Registrant's Annual Report on Form 10□K for the period ending December 31, 2003, filed March 30, 2004.
10.30	First Amendment and Waiver to Loan and Security Agreement between Blonder Tongue Laboratories, Inc. and Commerce Bank, N.A., dated November 14, 2003.	Incorporated by reference from Exhibit 10.30 to Registrant's Annual Report on Form 10□K for the period ending December 31, 2003, filed March 30, 2004.
10.31	Collateral Pledge Agreement between Blonder Tongue Laboratories, Inc. and Commerce Bank, N.A., dated November 14, 2003.	Incorporated by reference from Exhibit 10.31 to Registrant's Annual Report on Form 10□K for the period ending December 31, 2003, filed March 30, 2004.
21	Subsidiaries of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 21 to Registrant's Annual Report on Form 10□K for the period ending December 31, 2003, filed March 30, 2004.
23	Consent of BDO Seidman, LLP.	Filed herewith.
31.1	Certification of James A. Luksch pursuant to Section 302 of the Sarbanes□Oxley Act of 2002.	Filed herewith.
31.2	Certification of Eric Skolnik pursuant to Section 302 of the Sarbanes□Oxley Act of 2002.	Filed herewith.

32.1 Certification pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002.

Filed herewith.