

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