

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

BLONDER TONGUE LABORATORIES INC
Form 10-Q
November 13, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007,

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
(State or other jurisdiction of incorporation or organization)

52-1611421
(I.R.S. Employer Identification No.)

One Jake Brown Road, Old Bridge, New Jersey
(Address of principal executive offices)

08857
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock, par value \$.001, outstanding as of November 9, 2007: 6,222,252

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

The Exhibit Index appears on page 20.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In thousands)

	September 30,	(unaudited) December 31,
	2007	2006
Assets (Note 4)		
Current assets:		
Cash.....	\$153	\$ 84
Accounts receivable, net of allowance for doubtful accounts of \$723 and \$652 respectively	3,602	3,874
Inventories (Note 3).....	8,900	9,708
Prepaid and other current assets.....	981	708
Deferred income taxes	568	568
Total current assets.....	14,204	14,942
Inventories, net non-current (Note 3).....	5,788	5,052
Property, plant and equipment, net of accumulated depreciation and amortization	4,313	4,537
Patents, net	82	107
Other assets, net	518	796
Deferred income taxes	1,788	1,788
	\$26,693	\$27,222
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt (Note 4).....	\$2,397	\$2,469
Accounts payable.....	2,180	1,397
Accrued compensation.....	509	742
Accrued benefit liability.....	103	103
Income taxes payable.....	49	461
Other accrued expenses.....	302	259
Total current liabilities.....	5,540	5,431
Long-term debt (Note 4).....	1,375	1,559
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock, \$.001 par value; authorized 5,000 shares; no shares outstanding.....	-	-
Common stock, \$.001 par value; authorized 25,000 shares, 8,465 shares Issued.....	8	8
Paid-in capital.....	24,750	24,454
Retained earnings.....	3,157	3,907
Accumulated other comprehensive loss.....	(826)	(826)
Treasury stock, at cost, 2,242 shares,.....	(7,311)	(7,311)
Total stockholders' equity.....	19,778	20,232

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

\$26,693

\$27,222

See accompanying notes to consolidated financial statements

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine M Sept
	2007	2006	2007
Net sales.....	\$9,246	\$9,088	\$24,836
Cost of goods sold.....	5,758	5,650	16,474
Gross profit	3,488	3,438	8,362
Operating expenses:			
Selling.....	1,123	1,211	3,733
General and administrative.....	1,217	1,323	4,009
Research and development.....	454	389	1,354
	2,794	2,923	9,096
Earnings (loss) from operations.....	694	515	(734)
Other Expense:			
Interest expense (net).....	(122)	(170)	(358)
Equity in loss of Blonder Tongue Telephone, LLC.....	-	-	-
	(122)	(170)	(358)
Earnings (loss) from continuing operations before income taxes.....	572	345	(1,092)
Provision (benefit) for income taxes.....	-	-	-
Earnings (loss) from continuing operations	572	345	(1,092)
Discontinued operations:			
Loss from discontinued operations (net of tax).....	-	(170)	-
Loss on disposal of subsidiary.....	-	-	(59)
Net income (loss).....	\$572	\$175	\$(1,151)
Basic and diluted earnings (loss) per share from continuing operations.....	\$0.09	\$0.04	\$(0.17)
Basic and diluted loss per share from discontinued operations.....	-	\$(0.02)	-
Basic and diluted loss per share on disposal	-	-	\$(0.01)
Basic and diluted net income (loss) per share.....	\$0.09	\$0.02	\$(0.18)

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Basic and diluted weighted average shares outstanding.....	6,222	7,515	6,222
--	-------	-------	-------

See accompanying notes to consolidated financial statements.

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended Se	
	2007	
Cash Flows From Operating Activities:		
Net loss.....	\$(1,151)	
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Stock compensation expense.....	296	
Equity in loss from Blonder Tongue Telephone, LLC.....	-	
Depreciation.....	351	
Amortization	25	
Allowance for doubtful accounts.....	71	
Provision for inventory reserves.....	558	
Changes in operating assets and liabilities:		
Accounts receivable.....	201	
Inventories.....	(486)	
Prepaid and other current assets.....	(273)	
Other assets.....	278	
Income taxes.....	(11)	
Accounts payable, accrued compensation and other accrued expenses.....	593	
Net cash provided by operating activities.....	452	
Cash Flows From Investing Activities:		
Capital expenditures.....	(127)	
Acquisition of rights-of-entry.....	-	
Net cash used in investing activities.....	(127)	
Cash Flows From Financing Activities:		
Borrowings of debt.....	24,815	
Repayments of debt.....	(25,071)	
Net cash used in financing activities.....	(256)	
Net increase (decrease) in cash.....	69	
Cash, beginning of period.....	84	
Cash, end of period.....	\$153	

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Supplemental Cash Flow Information:

Cash paid for interest.....	\$372
Cash paid for income taxes.....	\$11

See accompanying notes to consolidated financial statements.

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)
(unaudited)

Note 1 - Company and Basis of Presentation

Blonder Tongue Laboratories, Inc. (the "Company") is a designer, manufacturer and supplier of electronics and systems equipment for the cable television industry, primarily throughout the United States. The consolidated financial statements include the accounts of Blonder Tongue Laboratories, Inc. and subsidiaries (including BDR Broadband, LLC, "BDR"). On December 15, 2006, BDR was sold. As a result, the Company reflected the sale of BDR as a discontinued operation. Significant intercompany accounts and transactions have been eliminated in consolidation.

The Company's investment in Blonder Tongue Telephone, LLC ("BTT") and NetLinc Communications, LLC ("NetLinc") were accounted for on the equity method since the Company did not have control over these entities. On June 30, 2006, the Company sold its ownership interest in BTT. See Note 5. For all periods presented, the Company did not include outstanding options in the calculation of earnings per share because they were antidilutive.

The results for the third quarter of 2007 are not necessarily indicative of the results to be expected for the full fiscal year and have not been audited. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting primarily of normal recurring accruals, necessary for a fair statement of the results of operations for the period presented and the consolidated balance sheet at September 30, 2007. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the SEC rules and regulations. These financial statements should be read in conjunction with the financial statements and notes thereto that were included in the Company's latest annual report on Form 10-K for the year ended December 31, 2006.

Note 2 - New Accounting Pronouncement

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation Number 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," ("FIN No. 48"), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on its tax returns. Upon adoption of FIN No. 48, the Company recognized a decrease of approximately \$400 in the liability for unrecognized tax benefits, which was accounted for as

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

an increase to retained earnings of \$400 as of January 1, 2007.

As of January 1, 2007, after the implementation of FIN No. 48, the Company's amount of unrecognized tax benefits is \$55. The amount of unrecognized tax benefits, if recognized, would not have a material impact on the Company's effective tax rate. The Company files income tax returns in the United States (federal) and in various state jurisdictions. The Company is no longer subject to federal and state income tax examinations by tax authorities for years prior to 2003.

Note 3 - Inventories

Inventories net of reserves are summarized as follows:

	(unaudited) September 30, 2007	December 31, 2006
	-----	-----
Raw Materials.....	\$9,091	\$8,564
Work in process.....	1,311	1,864
Finished Goods.....	11,674	11,162
	-----	-----
	22,076	21,590
Less current inventory.....	(8,900)	(9,708)
	-----	-----
	13,176	11,882
Less Reserve primarily for excess inventory.....	(7,388)	(6,830)
	-----	-----
	\$5,788	\$5,052
	=====	=====

Inventories are stated at the lower of cost, determined by the first-in, first-out ("FIFO") method, or market.

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.

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. Products that are determined to be obsolete are written down to net realizable value. If the Company does not meet its sales expectations, these reserves are increased. The Company believes reserves are adequate and inventories are reflected at net realizable value.

Note 4 - Debt

On December 29, 2005 the Company entered into a Credit and Security Agreement ("Credit Agreement") with National City Business Credit, Inc. ("NCBC") and National City Bank (the "Bank"). The Credit Agreement initially provided for (i) a \$10,000 asset based revolving credit facility ("Revolving Loan") and (ii) a \$3,500 term loan facility ("Term Loan"), both of which have a three year term. The amounts which may be borrowed under the Revolving Loan are based on certain percentages of Eligible Receivables and Eligible Inventory, as such terms are

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

defined in the Credit Agreement. The obligations of the Company under the Credit Agreement are secured by substantially all of the assets of the Company.

In March 2006, the Credit Agreement was amended to (i) modify certain financial covenants as defined under the Credit Agreement, (ii) increase the applicable interest rates for the Revolving Loan and Term Loan thereunder by 25 basis points until such time as the Company has met certain financial covenants for two consecutive fiscal quarters and (iii) impose an availability block of \$500 under the Company's borrowing base until such time as the Company has met certain financial covenants for two consecutive fiscal quarters. The increase in interest rates and availability block were released as of November 14, 2006.

On December 15, 2006, the Company and BDR, as Borrowers, and Blonder Tongue Investment Company, a wholly-owned subsidiary of the Company, as Guarantor, entered into a Second Amendment to Credit and Security Agreement (the "Amendment") with NCBC and the Bank. The Amendment removed BDR as a "Borrower" under the Credit Agreement as amended and included other modifications and amendments to the Credit Agreement and related ancillary agreements necessitated by the removal of BDR as a Borrower. These other modifications and amendments included a reduction of approximately \$1,400 to the maximum amount of advances that NCBC will make to the Company under the Revolving Loan, due to the release from collateral of the rights of entry owned by BDR.

At March 31, 2007, June 30, 2007 and September 30, 2007, the Company was in violation of a certain financial covenant, compliance with which was waived by the Bank effective as of each such date.

On August 8, 2007, the Credit Agreement was amended to (i) reduce the maximum revolving advance amount by \$2,500 to \$7,500; (ii) increase by one percent (1.0%), the applicable interest rate margin for the Revolving Loan and Term Loan thereunder priced against the lender's "prime" or "base" rate; (iii) eliminate the Company's option to pay interest on its loans based upon the LIBOR rate plus an applicable margin; (iv) add a covenant requiring the Company to meet certain levels of EBITDA for the calendar months of July through September 2007; and (v) add a covenant requiring the Company to maintain certain minimum levels of undrawn availability under the Revolving Loan.

On November 7, 2007, the Credit Agreement was amended to (i) increase by 0.25% the applicable interest rate margin for the Revolving Loan and Term Loan thereunder priced against the lender's "prime" or "base" rate; and (ii) add a covenant requiring the Company to meet certain levels of EBITDA for the calendar months of October through December 2007.

Under the Credit Agreement, as amended, the Revolving Loan bears interest at a rate per annum equal to the "Alternate Base Rate," being the higher of (i) the prime lending rate announced from time to time by the Bank plus 1.25% or (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement), plus 1.25%. The Term Loan bears interest at a rate per annum equal to the Alternate Base Rate plus 1.25%. In connection with the Term Loan, the Company entered into an interest rate swap agreement ("Swap Agreement") with the Bank which exchanges the variable interest rate of the Term Loan for a fixed interest rate of 5.13% per annum effective January 10, 2006 through the maturity of the Term Loan.

The Revolving Loan terminates on December 28, 2008, at which time all outstanding borrowings under the Revolving Loan are due. The Term Loan requires equal monthly principal payments of \$19 each, plus interest, with the remaining balance due at maturity. Both loans are subject to a prepayment penalty if satisfied in full prior to the second anniversary of the effective date of the loans.

The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants, including certain financial

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

covenants. The Credit Agreement contains customary events of default, including, among others, non-payment of principal, interest or other amounts when due.

Note 5 - Discontinued Operations and Sale of BTT (Subscribers and passings in whole numbers)

In June 2002 the Company acquired its initial 90% ownership interest in BDR Broadband, LLC and in October 2006 acquired the 10% minority interest that had been owned by Priority Systems, LLC for nominal consideration. In June 2002, BDR acquired certain rights-of-entry for multiple dwelling unit cable television and high-speed data systems (the "Systems"). As a result of BDR acquiring additional rights-of-entry, at the time of divestiture in December 2006, BDR owned Systems for approximately 25 MDU properties in the State of Texas, representing approximately 3,300 MDU cable television subscribers and 8,400 passings. The Systems were upgraded with approximately \$81 and \$799 of interdiction and other products of the Company during 2006 and 2005, respectively. During 2004, two Systems located outside of Texas were sold.

On December 15, 2006, the Company and BDR, entered into a Membership Interest Purchase Agreement ("Purchase Agreement") with DirecPath Holdings, LLC, a Delaware limited liability company ("DirecPath"), pursuant to which the Company sold all of the issued and outstanding membership interests of BDR to DirecPath.

Pursuant to the Purchase Agreement, DirecPath paid the Company an aggregate purchase price of \$3,130 in cash, subject to certain post-closing adjustments, including an adjustment for cash, an adjustment for working capital and adjustments related to the number of subscribers for certain types of services, all as of the closing date and as set forth in the Purchase Agreement. A portion of the purchase price, \$490 (which is included as part of the prepaid and other current assets), was deposited into an escrow account pursuant to an Escrow Agreement dated December 15, 2006, among the Company, DirecPath and U.S. Bank National Association, to secure the Company's indemnification obligations under the Purchase Agreement.

On March 15, 2007, the Company received from DirecPath a Final Purchase Price Certificate (the "Certificate") as defined under the Purchase Agreement. The Certificate asserted various purchase price adjustments aggregating approximately \$970 as being due to DirecPath. The Company evaluated the claims outlined in the Certificate and filed a Disputed Items Notice (the "Notice") dated May 11, 2007, within the sixty day period allowed under the Purchase Agreement. The Notice asserted that adjustments to the purchase price aggregating \$3 are due to the Company. In connection therewith, the Company and DirecPath agreed to settle the claims whereby the Company paid \$58, of which \$25 was disbursed from the escrow account.

In addition, in connection with the purchase transaction, on December 15, 2006, the Company entered into a Purchase and Supply Agreement with DirecPath, LLC, a wholly-owned subsidiary of DirecPath ("DPLLC"), pursuant to which DPLLC will purchase \$1,630 of products from the Company, subject to certain adjustments, over a period of three (3) years beginning in December 2006. The period in which DPLLC is required to satisfy the purchase commitment may be extended upon the occurrence of certain events, including if the Company is unable to deliver the products required by DPLLC. The Purchase Agreement includes customary representations and warranties and post-closing covenants, including indemnification obligations, subject to certain limitations, on behalf of the parties with respect to their representations, warranties and agreements made pursuant to the Purchase Agreement. In addition, except for certain activities by Hybrid Networks, LLC, a wholly-owned subsidiary of the Company, the Company agreed, for a period of two (2) years, not to engage in any business that competes with BDR.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

In connection with the Purchase Agreement, the Company also entered into a Transition Services Agreement with DirecPath, pursuant to which the Company will provide certain administrative and other services to DirecPath during a ninety-day transition period, which was extended and completed in April, 2007.

As a result of the above, the Company reflected the sale of BDR and the results of its operations for the three and nine months ended September 30, 2006, as a discontinued operation. Components of the loss from discontinued operations are as follows:

	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2006
Net Sales.....	\$490	\$1,410
Cost of goods sold.....	173	486
Gross profit.....	317	924
General and administrative.....	487	1,291
Net loss.....	\$(170)	\$(367)

During 2003, the Company entered into a series of agreements pursuant to which the Company ultimately acquired a 50% economic ownership interest in NetLinc Communications, LLC ("NetLinc") and Blonder Tongue Telephone, LLC ("BTT") (to which the Company had licensed its name). The aggregate purchase price consisted of (i) the cash portion of \$1,167, plus (ii) 500 shares of the Company's common stock. BTT had an obligation to redeem the \$1,167 cash component of the purchase price to the Company via preferential distributions of cash flow under BTT's limited liability company operating agreement. In addition, of the 500 shares of common stock issued to BTT as the non-cash component of the purchase price (fair valued at \$1,030), one-half (250 shares) were pledged to the Company as collateral.

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 multiple dwelling units ("MDUs"). BTT partnered 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 offered for sale a line of telephony equipment to complement the voice service. Certain distributorship agreements were entered into among NetLinc, BTT and the Company pursuant to which the Company acquired the right to distribute NetLinc's telephony products in certain markets. The Company also purchased similar telephony products from third party suppliers other than NetLinc and, in connection with the sales of such third-party products, incurred royalty obligations to NetLinc and BTT. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not presently anticipate purchasing products from NetLinc. NetLinc, however, continues to own intellectual property, which could be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements, although the Company has no present intention to do so. The Company accounts for its investments in NetLinc and BTT using the equity method.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

On June 30, 2006, the Company entered into a Share Exchange and Settlement Agreement ("Share Exchange Agreement") with BTT and certain related parties of BTT. Pursuant to the Share Exchange Agreement, in exchange for all of the membership shares of BTT owned by the Company (the "BTT Shares"), BTT transferred back to the Company the 500 shares of the Company's common stock that were previously contributed by the Company to the capital of BTT (the "Company Common Stock"). Under the terms of the Share Exchange Agreement, the parties also agreed to the following:

- o the Company granted BTT a non-transferable equipment purchase credit in the aggregate amount of \$400 (subject to certain off-sets as set forth in the Share Exchange Agreement); two-thirds (2/3rds) of which (\$270) had to be used solely for the purchase of telephony equipment and the remaining one-third (1/3rd) of which (\$130) could be used for either video/data equipment or telephony equipment;
- o the equipment credit would have expired automatically on December 31, 2006, but it was exercised in full by September 30, 2006;
- o certain non-material agreements were terminated, including the Amended and Restated Operating Agreement of BTT among the Company, BTT and remaining member of BTT, the Joint Venture Agreement among the Company, BTT, and certain related parties, the Royalty Agreement between the Company and BTT, and the Stock Pledge Agreement between the Company and BTT, each dated September 11, 2003 (collectively, the "Prior Agreements");
- o BTT agreed, within ninety (90) days, to change its corporate name and cease using any intellectual property of the Company, including, without limitation, the names "Blonder", "Blonder Tongue" or "BT"; and
- o the mutual release among the parties of all claims related to (i) the ownership, purchase, sale or transfer of the BTT Shares or the Company Common Stock, (ii) the Joint Venture (as defined in the Joint Venture Agreement) and (iii) the Prior Agreements.

Note 6 - Related Party Transactions

On January 1, 1995, the Company entered into a consulting and non-competition agreement with James H. Williams who was a director of the Company until May 24, 2006 and who was also the Company's largest stockholder until November 14, 2006. Under the agreement, Mr. Williams provides consulting services on various operational and financial issues and is currently paid at an annual rate of \$186 but in no event is such annual rate permitted to exceed \$200. Mr. Williams also agreed to keep all Company information confidential and not to compete directly or indirectly with the Company for the term of the agreement and for a period of two years thereafter. The initial term of this agreement expired on December 31, 2004 and automatically renews thereafter for successive one-year terms (subject to termination at the end of the initial term or any renewal term on at least 90 days' notice). This agreement automatically renewed for a one-year extension until December 31, 2007. On November 14, 2006, the Company repurchased 1,293 shares of its common stock from Mr. Williams in a private off-market block transaction for \$0.75 per share, for an aggregate purchase price of \$970.

As of September 30, 2007, the Chief Executive Officer was indebted to the Company in the amount of \$156, for which no interest has been charged. This indebtedness arose from a series of cash advances, the latest of which was advanced in February 2002 and is included in other assets at June 30, 2007 and December 31, 2006.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

As described in Note 5, the Company entered into a series of agreements in 2003 pursuant to which it acquired a 50% economic ownership interest in NetLinc and BTT. As the non-cash component of the purchase price, the Company issued 500 shares of its common stock to BTT, resulting in BTT becoming the owner of greater than 5% of the outstanding common stock of the Company. As further described in Note 5, on June 30, 2006 the Company entered into the Share Exchange Agreement with BTT and certain related parties pursuant to which, among other things, the Company received back these 500 shares in exchange for the Company's membership interest in BTT and the grant to BTT of an equipment purchase credit of \$400, which was exercised in 2006. The Company remains obligated to pay royalties to NetLinc upon the sale of certain telephony products, although material future sales of such telephony products are not anticipated.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this Quarterly 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 section entitled Item 2 - 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 in other documents the Company files from time to time with the Securities and Exchange Commission, including without limitation, the Company's Annual Report on Form 10-K for the year ended December 31, 2006 (See Item 1 - Business; Item 1A - Risk Factors; Item 3 - Legal Proceedings and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations).

General

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 completed the initial public offering of its shares of Common Stock in December, 1995.

The Company is principally a designer, manufacturer and supplier of a comprehensive line of electronics and systems equipment, primarily for the cable television industry (both franchise and private cable). Over the past few years, 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

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

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

A key component of the Company's strategy is to leverage its reputation across a broad product line, offering one-stop shop convenience to private cable and franchise cable system operators and delivering products having a high performance-to-cost ratio. The Company continues to expand its core product lines (headend and distribution), to maintain its ability to provide all of the electronic equipment necessary 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. The Company has also divested its interests in certain non-core businesses as part of its strategy to focus on the efficient operation of its core businesses.

Over the past several years, the Company expanded beyond its core business by acquiring a private cable television system (BDR Broadband, LLC). During 2003, the Company also acquired an interest in a company offering a private telephone program for multiple dwelling unit applications (Blonder Tongue Telephone, LLC). However, as part of its strategy to focus on its core business, the Company sold its interests in these businesses during 2006. The results of operations from BDR Broadband, LLC, as well as the gain due to its sale, are reflected as discontinued operations in the consolidated statement of operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and this Quarterly Report on Form 10-Q. These acquisitions and related dispositions are described in more detail below, along with other recent transactions affecting the Company in recent years.

On December 15, 2006, the Company completed the divestiture of its wholly-owned subsidiary, BDR Broadband, LLC ("BDR"), through the sale of all of the issued and outstanding membership interests of BDR to DirecPath, a joint venture between Hicks Holdings LLC and The DIRECTV Group, Inc. The aggregate sale price was approximately \$3.1 million resulting in a gain of approximately \$938,000 on the sale, subject to certain post-closing adjustments. This divestiture is expected to result in annualized savings of approximately \$525,000 per year. The transaction included a long-term equipment purchase commitment from DirecPath, pursuant to which a subsidiary of DirecPath will purchase \$1,630,000 of products from the Company, subject to certain adjustments, over a period of three (3) years beginning in December 2006. It is also anticipated that Blonder Tongue will provide DirecPath with certain systems engineering and technical services.

Under the terms of the Purchase Agreement between DirecPath and the Company pursuant to which DirecPath acquired all of the Company's membership interests in BDR, DirecPath paid the Company an aggregate purchase price of \$3,130,000 in cash, subject to certain post-closing adjustments, including an adjustment for cash, an adjustment for working capital and adjustments related to the number of subscribers for certain type of services, all as of the closing date and as set forth in the Purchase Agreement. A portion of the purchase price (\$490,000, which is included as part of the prepaid and other current assets) was deposited into an escrow account, pursuant to an Escrow Agreement dated December 15, 2006, among the Company, DirecPath and U.S. Bank National Association, to secure the Company's indemnification obligations under the Purchase Agreement.

On March 15, 2007, the Company received from DirecPath a Final Purchase Price Certificate (the "Certificate") as defined under the Purchase Agreement.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

The Certificate asserted various purchase price adjustments aggregating approximately \$970,000 as being due to DirecPath. The Company evaluated the claims outlined in the Certificate and filed a Disputed Items Notice (the "Notice") dated May 11, 2007, within the sixty day period allowed under the Purchase Agreement. The Notice asserted that adjustments to the purchase price aggregating \$3,000 are due to the Company. In connection therewith, the Company and DirecPath agreed to settle the claims whereby the Company paid \$58,000, of which \$25,000 was disbursed from the escrow account.

BDR commenced operations in June 2002, when it acquired certain rights-of-entry for MDU cable television and high-speed data systems (the "Systems") from Verizon Media Ventures, Inc. and GTE Southwest Incorporated. At the time of the divestiture, BDR owned Systems for approximately 25 MDU properties in the State of Texas, representing approximately 3,300 MDU cable television subscribers and 8,400 passings. The loss from operations of BDR was \$500,000, \$544,000 and \$379,000 during 2006, 2005 and 2004, respectively. The Systems were upgraded with approximately \$81,000, \$799,000 and \$331,000 of interdiction and other products of the Company during 2006, 2005 and 2004, respectively. While the Company continued to invest in and expand BDR's business, in August 2006 the Company determined to seek a buyer for BDR and exit the business of operating Systems in Texas to allow the Company to pursue alternative strategic opportunities. In October 2006, several months prior to the divestiture of BDR, the Company acquired the 10% minority interest that had been owned by Priority Systems, LLC, for nominal consideration.

During 2003, the Company entered into a series of agreements pursuant to which the Company ultimately acquired a 50% economic ownership interest in NetLinc Communications, LLC ("NetLinc") and Blonder Tongue Telephone, LLC ("BTT") (to which the Company had licensed its name). The aggregate purchase price consisted of (i) the cash portion of \$1,166,667 plus (ii) 500,000 shares of the Company's common stock. BTT had an obligation to redeem the \$1,166,667 cash component of the purchase price to the Company via preferential distributions of cash flow under BTT's limited liability company operating agreement. 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) were pledged to the Company as collateral.

Through its ownership interest in BTT, the Company was involved in providing a proprietary telephone system suited to MDU development and was entitled to receive incremental revenues associated with direct sales of telephony products, however, revenues derived from sales of such telephony products and services were not material. 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. While NetLinc's intellectual property could be further developed and used in the future to manufacture and sell telephony products, the Company has no present intention to do so.

On June 30, 2006, the Company entered into a Share Exchange and Settlement Agreement ("Share Exchange Agreement") with BTT and certain related parties of BTT, pursuant to which the Company transferred to BTT its 49 membership shares of BTT, representing the Company's 50% ownership interest in BTT. In exchange, BTT transferred back to the Company the 500,000 shares of the Company's common stock that were previously contributed by the Company to the capital of BTT. Pursuant to the Share Exchange Agreement, the Company granted BTT a non-transferable equipment purchase credit in the aggregate amount of \$400,000 (subject to certain off-sets), which was exercised in full by September 30, 2006. The Company's equity in loss of BTT was approximately \$107,000 and \$437,000 for the fiscal years ended December 31, 2006 and 2005, respectively. The Company continues to hold its interest in NetLinc.

As a result of the transactions contemplated by the Share Exchange

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Agreement, while the Company presently intends to continue to independently pursue its existing and hereafter-developed leads for the provision of telephony services and the sale of telephony equipment, the Company anticipates that over the next year, sales derived from this business will not be a significant source of revenues for the Company.

On December 14, 2006, the Company's wholly-owned subsidiary, Blonder Tongue Investment Company, completed the sale of selected patents, patent applications, provisional patent applications and related foreign patents and applications to Moonbeam L.L.C. for net proceeds of \$2,000,000. In connection with the sale, the Company has retained a non-exclusive, royalty free, worldwide right and license to use these patents to continue to develop, manufacture, use, sell, distribute and otherwise exploit all of the Company's products currently protected under the patents. These products include some of the interdiction lines in the Addressable Subscriber category of equipment, some of which were part of the interdiction business acquired from Scientific-Atlanta, Inc. ("Scientific") in 1998.

One of the Company's recent initiatives is its ongoing transition of manufacturing for certain of its products to the People's Republic of China ("PRC") in order to reduce the Company's manufacturing costs and allow a more aggressive marketing program in the private cable market. Towards this end, on November 11, 2005, the Company and its wholly-owned subsidiary, Blonder Tongue Far East, LLC, a Delaware limited liability company, entered into a joint venture agreement ("JV Agreement") with Master Gain International Industrial Limited, a Hong Kong corporation ("Master Gain"), intending to manufacture products in the PRC. This joint venture was formed to compete with Far East manufactured products and to expand market coverage outside North America. On June 9, 2006, the Company terminated the JV Agreement due to the joint venture's failure to meet certain quarterly financial milestones as set forth in the JV Agreement. The inability to meet such financial milestones was caused by the failure of Master Gain to contribute the \$5,850,000 of capital to the joint venture as required by the JV Agreement and the joint venture's failure to obtain certain governmental approvals and licenses necessary for the operation of the joint venture.

Although the termination of the JV Agreement delayed the Company's efforts to move production of its products to the Far East, the Company shifted its manufacturing initiative in the PRC to now entail a combination of contract manufacturing agreements and purchasing agreements with key PRC manufacturers that can most fully meet the Company's needs. The Company has entered into a manufacturing agreement with a core contract manufacturer in the PRC that would govern its production of the Company's high volume and complex products upon the receipt of purchase orders from the Company. It is anticipated this transition will relate to products representing a significant portion of the Company's net sales and will be done in phases over the next several years. The Company began to receive production units of its first transition product during the third quarter 2007, with additional products to follow in subsequent phases.

On February 27, 2006 (the "Effective Date"), the Company entered into a series of agreements related to its MegaPort(TM) line of high-speed data communications products. As a result of these agreements, the Company has expanded its distribution territory, favorably amended certain pricing and volume provisions and extended by 10 years the term of the distribution agreement for its MegaPort(TM) product line. These agreements also require the Company to guaranty payment due by Shenzhen Junao Technology Company Ltd. ("Shenzhen") to Octalica, Ltd. ("Octalica"), in connection with Shenzhen's purchase of T.M.T.-Third Millennium Technology Limited ("TMT") from Octalica. Shenzhen is an affiliate of Master Gain. In exchange for this guaranty, MegaPort Technology, LLC ("MegaPort"), a wholly-owned subsidiary of the Company, obtained an assignable option (the "Option") to acquire substantially all of the assets and assume certain liabilities of TMT on substantially the same terms as the

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

acquisition of TMT by Shenzhen from Octalica. The purchase price for TMT and, therefore, the amount and payment terms guaranteed by the Company is the sum of \$383,150 plus an earn-out. The earn-out will not exceed 4.5% of the net revenues derived from the sale of certain products during a period of 36 months commencing after the sale of certain specified quantities of TMT inventory following the Effective Date. The cash portion of the purchase price is payable (i) \$22,100 on the 120th day following the Effective Date, (ii) \$22,100 on the last day of the twenty-fourth month following the Effective Date, and (iii) \$338,950 commencing upon the later of (A) the second anniversary of the Effective Date and (B) the date after which certain volume sales targets for each of the MegaPort(TM) products have been met, and then only as and to the extent that revenues are derived from sales of such products. As of the date of the filing of this report, none of the volume sales targets for these MegaPort products have been met and, accordingly, no further purchase price payments have been made. In February 2007, MegaPort sent notice to TMT and Shenzhen of its election to exercise the Option to acquire substantially all of the assets of TMT. Shenzhen has not responded to MegaPort's notice of exercise of the Option. MegaPort has engaged legal representation in Israel to explore its options in connection with enforcement of its contractual rights, but no decisions with respect thereto have been made. Upon consummation of the acquisition, MegaPort, or its assignee, will pay Shenzhen, in the same manner and at the same times, cash payments equal to the purchase price payments due from Shenzhen to Octalica and will assume certain liabilities of TMT.

Results of Operations

Third three months of 2007 compared with third three months of 2006

Net Sales. Net sales increased \$158,000, or 1.7%, to \$9,246,000 in the third three months of 2007 from \$9,088,000 in the third three months of 2006. The increase in sales is primarily attributed to an increase in digital product sales offset by a decrease in fiber, distribution and interdiction product sales. Digital products were \$1,544,000 and \$958,000, fiber products were \$388,000 and \$647,000, distribution products were \$1,771,000 and \$1,977,000 and interdiction products were \$151,000 and \$319,000 in the third three months of 2007 and 2006, respectively.

Cost of Goods Sold. Cost of goods sold increased to \$5,758,000 for the third three months of 2007 from \$5,650,000 for the third three months of 2006 and increased as a percentage of sales to 62.3% from 62.2%. The increase was attributed primarily to an unfavorable product mix.

Selling Expenses. Selling expenses decreased to \$1,123,000 for the third three months of 2007 from \$1,211,000 in the third three months of 2006 and decreased as a percentage of sales to 12.2% for the third three months of 2007 from 13.3% for the third three months of 2006. The \$88,000 decrease was primarily the result of a decrease in salaries and fringe benefits of \$136,000 due to a decrease in headcount, a decrease in freight expense of \$43,000 due to more favorable shipping terms offset by an increase in consulting fees of \$67,000.

General and Administrative Expenses. General and administrative expenses decreased to \$1,217,000 for the third three months of 2007 from \$1,323,000 for the third three months of 2006 and decreased as a percentage of sales to 13.3% for the third three months of 2007 from 14.6% for the third three months of 2006. This \$106,000 decrease is primarily the result of a decrease in amortization of \$89,000 due to the sale of patents, a decrease in bad debt expense of \$90,000 and a decrease in operating expenses of Hybrid Networks (a wholly-owned subsidiary of the Company) of \$59,000 offset by an increase in salaries and fringe benefits of \$97,000 due to an increase in executive compensation.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Research and Development Expenses. Research and development expenses increased to \$454,000 in the third three months of 2007 from \$389,000 in the third three months of 2006 and increased as a percentage of sales to 5.0% for the third three months of 2007 from 4.3% for the third three months of 2006. This \$65,000 increase is primarily the result of an increase in salaries and fringe benefits of \$38,000 due to an increase in head count and an increase in consulting fees of \$18,000.

Operating Income. Operating income of \$694,000 for the third three months of 2007 represents an increase from \$515,000 for the third three months of 2006. Operating income as a percentage of sales increased to 7.6 % in the third three months of 2007 from 5.7% in the third three months of 2006.

Other Expense. Interest expense decreased to \$122,000 in the third three months of 2007 from \$170,000 in the third three months of 2006. The decrease is the result of lower average borrowing.

Income Taxes. The current provision for income taxes for the third three months of 2007 and 2006 was zero. A valuation allowance has been recorded on the 2007 and 2006 deferred tax assets. As a result of the Company's historical losses, there is no change in the remaining deferred tax asset in 2007 or 2006.

First nine months of 2007 compared with first nine months of 2006

Net Sales. Net sales decreased \$3,731,000, or 13.1%, to \$24,836,000 in the first nine months of 2007 from \$28,567,000 in the first nine months of 2006. The decrease in sales is primarily attributed to a decrease in headend, interdiction and distribution product sales. Headend products were \$12,485,000 and \$14,536,000, interdiction products were \$657,000 and \$1,591,000 and distribution products were \$5,115,000 and \$5,787,000 in the first nine months of 2007 and 2006, respectively.

Cost of Goods Sold. Cost of goods sold decreased to \$16,474,000 for the first nine months of 2007 from \$18,819,000 for the first nine months of 2006 but increased as a percentage of sales to 66.5% from 65.9%. The decrease was attributed primarily to a decrease in sales in the first nine months of 2007 as compared to 2006, offset by an increase in the provision for inventory reserves of \$558,000. Of the 0.6% increase in cost of goods sold as a percentage of sales, 2.2%, as a percentage of sales, is attributable to the increase in the provision for inventory reserves offset by a decrease in cost of goods sold as percentage of sales of 1.6% due to a more favorable product mix.

Selling Expenses. Selling expenses increased to \$3,733,000 for the first nine months of 2007 from \$3,564,000 in the first nine months of 2006 and increased as a percentage of sales to 15.0% for the first nine months of 2007 from 12.5% for the first nine months of 2006. The \$169,000 increase was primarily the result of an increase of consulting fees of \$188,000 and an increase in advertising and trade show expenses of \$45,000, offset by a decrease in freight expenses of \$52,000 due to more favorable shipping terms.

General and Administrative Expenses. General and administrative expenses decreased to \$4,009,000 for the first nine months of 2007 from \$4,015,000 for the first nine months of 2006 but increased as a percentage of sales to 16.2% for the first nine months of 2007 from 14.1% for the first nine months of 2006. The \$6,000 decrease was primarily the result of a decrease in amortization of \$268,000 due to the sale of patents and a decrease in bad debt expense of \$90,000, offset by of an increase in salaries and fringe benefits of \$425,000, due primarily to an increase in executive compensation.

Research and Development Expenses. Research and development expenses increased to \$1,354,000 in the first nine months of 2007 from \$1,190,000 in the first nine months of 2006 and increased as a percentage of sales to 5.5% for the

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

first nine months of 2007 from 4.2% for the first nine months of 2006. This \$164,000 increase is primarily the result of an increase in salaries and fringe benefits of \$110,000 due to an increase in headcount and an increase in consulting fees of \$41,000.

Operating Income (Loss). Operating loss of \$734,000 for the first nine months of 2007 represents a decrease from operating income of \$979,000 for the first nine months of 2006. Operating income as a percentage of sales decreased to (3.0) % in the first nine months of 2007 from 3.4% in the first nine months of 2006.

Other Expense. Interest expense decreased to \$358,000 in the first nine months of 2007 from \$542,000 in the first nine months of 2006. The decrease is the result of lower average borrowing.

Income Taxes. The current provision for income taxes for the first nine months of 2007 and 2006 was zero. A valuation allowance has been recorded on the 2007 and 2006 deferred tax assets. As a result of the Company's historical losses, there is no change in the remaining deferred tax asset in 2007 or 2006.

Liquidity and Capital Resources

As of September 30, 2007 and December 31, 2006, the Company's working capital was \$8,664,000 and \$9,511,000, respectively. The decrease in working capital is attributable primarily to a decrease in current inventory of \$808,000.

The Company's net cash provided by operating activities for the nine-month period ended September 30, 2007 was \$452,000, compared to net cash provided by operating activities of \$1,404,000 for the nine-month period ended September 30, 2006.

Cash used in investing activities for the nine-month period ended September 30, 2007 was \$127,000, which was primarily attributable to capital expenditures for new equipment.

Cash used in financing activities was \$256,000 for the first nine months of 2007, which was comprised of \$24,815,000 of net borrowings offset by \$25,071,000 of repayment of debt.

On December 29, 2005 the Company entered into a Credit and Security Agreement ("Credit Agreement") with National City Business Credit, Inc. ("NCBC") and National City Bank (the "Bank"). The Credit Agreement initially provided for (i) a \$10,000,000 asset based revolving credit facility ("Revolving Loan") and (ii) a \$3,500,000 term loan facility ("Term Loan"), both of which have a three year term. The amounts which may be borrowed under the Revolving Loan are based on certain percentages of Eligible Receivables and Eligible Inventory, as such terms are defined in the Credit Agreement. The obligations of the Company under the Credit Agreement are secured by substantially all of the assets of the Company.

In March 2006, the Credit Agreement was amended to (i) modify certain financial covenants as defined under the Credit Agreement, (ii) increase the applicable interest rates for the Revolving Loan and Term Loan thereunder by 25 basis points until such time as the Company has met certain financial covenants for two consecutive fiscal quarters and (iii) impose an availability block of \$500,000 under the Company's borrowing base until such time as the Company has met certain financial covenants for two consecutive fiscal quarters. The increase in interest rates and availability block were released as of November 14, 2006.

On December 15, 2006, the Company and BDR, as Borrowers, and Blonder Tongue

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Investment Company, a wholly-owned subsidiary of the Company, as Guarantor, entered into a Second Amendment to Credit and Security Agreement (the "Amendment") with NCBC and the Bank. The Amendment removed BDR as a "Borrower" under the Credit Agreement as amended and included other modifications and amendments to the Credit Agreement and related ancillary agreements necessitated by the removal of BDR as a Borrower. These other modifications and amendments included a reduction of approximately \$1,400,000 to the maximum amount of advances that NCBC will make to the Company under the Revolving Loan, due to the release from collateral of the rights of entry owned by BDR.

At March 31, 2007, June 30, 2007 and September 30, 2007, the Company was in violation of a certain financial covenant, compliance with which was waived by the Bank effective as of each such date.

On August 8, 2007, the Credit Agreement was amended to (i) reduce the maximum revolving advance amount by \$2,500,000 to \$7,500,000; (ii) increase by 100 basis points, the applicable interest rate margin for the Revolving Loan and Term Loan thereunder priced against the lender's "prime" or "base" rate; (iii) eliminate the Company's option to pay interest on its loans based upon the LIBOR rate plus an applicable margin; (iv) add a covenant requiring the Company to meet certain levels of EBITDA for the calendar months of July through September 2007; and (v) add a covenant requiring the Company to maintain certain minimum levels of undrawn availability under the Revolving Loan.

On November 7, 2007, the Credit Agreement was amended to (i) increase by 0.25% the applicable interest rate margin for the Revolving Loan and Term Loan thereunder priced against the lender's "prime" or "base" rate; and (ii) add a covenant requiring the Company to meet certain levels of EBITDA for the calendar months of October through December 2007.

Under the Credit Agreement, as amended, the Revolving Loan bears interest at a rate per annum equal to the "Alternate Base Rate," being the higher of (i) the prime lending rate announced from time to time by the Bank plus 1.25% or (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement), plus 1.25%. The Term Loan bears interest at a rate per annum equal to the Alternate Base Rate plus 1.25%. In connection with the Term Loan, the Company entered into an interest rate swap agreement ("Swap Agreement") with the Bank which exchanges the variable interest rate of the Term Loan for a fixed interest rate of 5.13% per annum effective January 10, 2006 through the maturity of the Term Loan.

The Revolving Loan terminates on December 28, 2008, at which time all outstanding borrowings under the Revolving Loan are due. The Term Loan requires equal monthly principal payments of \$19,000 each, plus interest, with the remaining balance due at maturity. Both loans are subject to a prepayment penalty if satisfied in full prior to the second anniversary of the effective date of the loans.

The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants, including certain financial covenants. The Credit Agreement contains customary events of default, including, among others, non-payment of principal, interest or other amounts when due.

At September 30, 2007, there was \$2,151,000 and \$1,592,000 outstanding under the NCBC Revolving Loan and Term Loan, respectively.

The Company anticipates that the cash generated from operations, existing cash balances and amounts available under its credit facility with NCBC, will be sufficient to satisfy its foreseeable working capital needs.

New Accounting Pronouncement

Effective January 1, 2007, the Company adopted Financial Accounting

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

Standards Board ("FASB") Interpretation Number 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," ("FIN" No. 48"), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on its tax returns. Upon adoption of FIN No. 48, the Company recognized a decrease of approximately \$400,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to retained earnings of \$400,000 as of January 1, 2007.

As of January 1, 2007, after the implementation of FIN No. 48, the Company's amount of unrecognized tax benefits is \$55,000. The amount of unrecognized tax benefits, if recognized, would not have a material impact on the Company's effective tax rate. The Company files income tax returns in the United States (federal) and in various state jurisdictions. The Company is no longer subject to federal and state income tax examinations by tax authorities for years prior to 2003.

ITEM 3. 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 September 30, 2007 and 2006, the principal amount of the Company's aggregate outstanding variable rate indebtedness was \$3,743,000 and \$5,889,000, respectively. A hypothetical 100 basis point increase in interest rates would have had an annualized unfavorable impact of approximately \$37,000 and \$59,000, respectively, on the Company's earnings and cash flows based upon these quarter-end debt levels. With regard to the Company's \$3,500,000 Term Loan with NCBC, the Company entered into an interest rate swap with the Bank which exchanges the variable interest rate of the Term Loan for a fixed interest rate of 5.13% per annum. This interest rate swap, which became effective January 10, 2006 and runs through the maturity of the three year Term Loan, will reduce the unfavorable impact of any increase in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at September 30, 2007.

During the quarter ended September 30, 2007, there have been no changes 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 have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

PART II - OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

There has not been any material change in the disclosure of risk factors contained in the Company's Form 10-K for the fiscal year ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

The Company, NCBC and the Bank entered into a Fourth Amendment to Credit and Security Agreement, dated November 8, 2007, pursuant to which the Credit Agreement was amended to (i) increase by 0.25% the applicable interest rate margin for the Revolving Loan and Term Loan thereunder priced against the lender's "prime" or "base" rate; and (ii) add a covenant requiring the Company to meet certain levels of EBITDA for the calendar months of October through December 2007. The description above is qualified in its entirety by reference to the full text of the Fourth Amendment to Credit and Security Agreement included in Exhibit 10.2 to this Form 10-Q.

ITEM 6. EXHIBITS

Exhibits

The exhibits are listed in the Exhibit Index appearing at page 20 herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLONDER TONGUE LABORATORIES, INC.

Date: November 13, 2007 By: /s/ James A. Luksch

Edgar Filing: BLONDER TONGUE LABORATORIES INC - Form 10-Q

James A. Luksch
Chief Executive Officer

By: /s/ Eric Skolnik
Eric Skolnik
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit #	Description	Location
3.1	Restated Certificate of Incorporation of Blonder Tongue Laboratories, Inc.	Incorporated by reference from 3.1 to S-1 Registration Statement 33-98070 originally filed October 1995, as amended.
3.2	Restated Bylaws of Blonder Tongue Laboratories, Inc.	Incorporated by reference from 3.2 to S-1 Registration Statement 33-98070 originally filed October 1995, as amended.
10.1	Third Amendment to Credit and Security Agreement dated August 8, 2007 among Blonder Tongue Laboratories, Inc., Blonder Tongue Investment Company, National City Business Credit, Inc. and National City Bank.	Incorporated by reference from 10.1 to Form 10-Q filed on August 8, 2007.
10.2	Fourth Amendment to Credit Security Agreement dated November 8, 2007 among Blonder Tongue Laboratories, Inc., Blonder Tongue Investment Company, National City Business Credit, Inc. and National City Bank.	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 Sarbanes-Oxley Act of 2002.	Filed herewith.