

BLONDER TONGUE LABORATORIES INC
Form 10-K
March 30, 2012

FORM 10-K

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, 2011, 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
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Common Stock, Par Value \$.001 NYSE Amex

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2011: \$6,604,844

Number of shares of common stock, par value \$.001, outstanding as of March 20, 2012: 6,215,556

Documents incorporated by reference:

Certain portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2012 (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 of Blonder Tongue Laboratories, Inc. (“**Blonder Tongue**” or the “**Company**”) contains forward-looking statements regarding future events 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, the Securities Act of 1933 and the Securities Exchange Act of 1934 provide safe harbors for forward-looking statements. In order to comply with the terms of these safe harbors, the Company notes that a variety of factors could cause the Company’s actual results and experience to differ materially and adversely 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 1A - Risk Factors, 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” “target,” “intend,” “plan”, “seek”, “estimate,” “endeavor,” “should,” “could,” “may” and similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to projections for our future financial performance, our anticipated growth trends in our business and other characterizations of future events or circumstance are 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.

PART I

ITEM 1. BUSINESS

Introduction

Overview

Blonder Tongue is a technology-development and manufacturing company that delivers television signal encoding, transcoding, digital transport and broadband product solutions for a broad range of applications. The markets we serve include cable television systems, multi-dwelling units, the lodging/hospitality market and institutional systems, including hospitals, prisons and schools. From the cable television pioneers that founded the Company in 1950, to the highly experienced research and development team that creates new products today, the Company’s success stems from listening to the needs of its customers, providing quality products to meet those needs and supporting those products after delivery. For over 60 years Blonder Tongue has been providing real-world solutions based on

continually advancing technology, enabling the Company to maintain its position as a leader in the markets it serves. Since its founding Blonder Tongue has continued to keep abreast of evolving technologies, from analog to digital television, into High Definition (HD) digital encoding, Internet Protocol Television (IPTV) processing and distribution, as well as Edge QAM (Quadrature Amplitude Modulation) products. By broadening these product groups, the Company is positioned to grow its existing business and continue to expand the applications and markets it serves.

The cable television market has reacted quickly to consumer demands for additional services by integrating multiple technologies into existing networks, providing consumers with high speed internet access in addition to enhanced video offerings. Today, video offerings have expanded from traditional cable television service to internet protocol (IP) based video delivery, switched digital video, video on demand, scheduled playback and video storage. Telephone companies have increased their market share in this competitive environment with fiber-to-the-home distribution networks, enabling them to provide traditional cable television, expanded video services and high-speed internet services, in addition to telephony offerings. Lodging and institutional markets, as well as the MDU market, continue to upgrade their networks to carry HD channels in order to meet consumers' expectations. This is a significant area of opportunity for the Company to market and sell its expanded digital product line.

The Federal Trade Commission's ("FCC") mandate that all broadcast television be transitioned from analog to digital by June 2009 resulted in a short term market for transitional products and increased customer demand for long term digital product solutions.

More specifically, the market segments that the Company serves have been focused on digital technologies, not only in broadcast, but throughout video and broadband transport. The Company identified three significant opportunities in the digital space: encoding, IPTV and EdgeQAM. Encoding enables operators to provide standard definition (SD) or HD content delivery transported over a broadband network. IPTV enables operators to stream video over private data networks with greater reliability and content security. While already experiencing full scale commercialization in international markets, the United States market continues to increasingly embrace IPTV technology. The worldwide market now has over 53 million IPTV subscribers, and is projected to have 105 million by 2015. Service providers transport both SD and HD video content in MPEG formats over IP networks to network edge devices located in high density serving areas. The device at the edge of the transport system (i.e. close to the customer location), is commonly referred to as EdgeQAM, because it allows the conversion from IP to radio frequency (RF) via QAM modulation. These signals are then transported to the customer across a hybrid fiber-coax (HFC) network. Management of the Company estimates the market for EdgeQAM devices to be about \$400 million over the next three years. In 2007 the Company began marketing and selling IPTV products, in 2008 shipped its first high quality HD encoder and in 2009 began shipping its high quality affordably priced EdgeQAM product. The Company continues to develop new versions of these products to expand their use in additional markets and applications.

Recent Developments

The Company has continued to advance the implementation of its strategic plan in an effort to maximize shareholder value. The Company's strategic plan consists of the following:

- strengthen core business,
- continue the heritage of technology development,
- expand into new markets, and
- increase gross margins.

Since 2008, the Company has entered into and renewed several agreements to obtain rights to use and incorporate certain proprietary technologies in its new digital encoder line of products, including:

¹ Implementation and System License Agreement with Dolby Laboratories Licensing Corporation for Dolby Digital Plus Professional Encoder, 5.1 and 2 channel licensed technology.

2. License Agreement with Digital Transmission Licensing Administrator, LLC (DTLA) to become a full-adopter of DTCP (Digital Transmission Content Protection) license technology.

3. License Agreement with LG Electronics as a Pro:Idiom content Protection System Manufacturer.

4. Ownership from the Motion Picture Experts Group of an MPEG-2 4:2:2 Profile High Level Video Encoder IP core.

The Implementation and System License Agreement with Dolby Laboratories Licensing Corporation grants the Company the right to manufacture, label and sell professional digital encoder products and consumer digital decoder products and to use the Dolby trademarks. This technology has a number of improvements aimed at increasing quality at a given bit rate compared with legacy Dolby Digital (AC-3). Most notably, it offers increased bit rates, support for more audio channels, improved coding techniques to reduce compression artifacts, and backward compatibility with existing AC-3 hardware.

The DTLA and LG Electronics license agreements provide the Company with certain technology necessary for production of EdgeQAM devices for the hospitality industry. With the DTLA agreement the Company became a full-adopter of DTCP license technology which is used to encrypt the interconnections between devices such as satellite receivers, personal computers and portable media players. Consequently, content can be transferred through and among these devices, only if incorporating this technology.

The Pro:Idiom digital technology platform provides the hospitality market with a robust, secure Digital Rights Management (DRM) system ensuring rapid, broad deployment of HD television (HDTV) and other high-value digital content to licensed users in the lodging industry. Lodging industry leaders such as World Cinema Inc., LodgeNet Entertainment Corporation and others have licensed the Pro:Idiom DRM system. A growing number of content providers have demonstrated their acceptance of Pro:Idiom by licensing their HD content for delivery to the Pro:Idiom users. The Company's revenues derived from the sale of products incorporating these technologies were \$2,160,000 in 2011 and \$5,439,000 in 2010.

The MPEG-2 Encoder IP core has a unique compression engine capable of creating HD MPEG-2 real-time encoding of a single channel of 1080i/720P/480i video. The use of this real-time encoding technique enables the Company to provide broadcast MPEG-2 HD and SD encoding. MPEG-2 is widely used as the format of digital television signals that are broadcast by terrestrial (over-the-air), cable, and direct broadcast satellite TV systems. The Company's revenues for digital encoders were \$3,496,000 in 2011 and \$2,867,000 in 2010.

In April 2010, the Company obtained a \$4.1 million purchase commitment for the first member of its EdgeQAM family of products (the EQAM-400) from World Cinema Inc. ("World Cinema"), a supplier of free-to-guest digital and HD television to the hospitality market. These shipments were made in the second and third quarters of 2010, during which time the EQAM-400 was exclusive to World Cinema. Since then, the parties have agreed to extend the exclusivity arrangement, with the most recent extension occurring in September, 2011 which extended exclusivity through the end of 2012. In connection with the most recent extension, World Cinema committed to purchase approximately \$2.2 million of EQAM-400 through the third quarter of 2012. World Cinema's purchases of this product were approximately \$2,160,000 and \$5,439,000 in 2011 and 2010, respectively. Future purchase commitments by World Cinema would allow them to further extend this exclusivity arrangement. The EQAM-400 product accepts HD content received by satellite via its IP Gigabit Ethernet (GbE) input, adds content protection by utilizing Pro:Idiom™ encryption, and QAM modulates it for distribution over standard coax networks.

Also in 2010, as a result of the Company's reduced sales levels in 2009, the Company reduced its operating expenses through the reduction of head count and the reduction of outside consultant fees. The Company realized approximately \$1.1 million of annualized operating expense savings from these reductions.

On February 1, 2012, the Company's newly formed, wholly-owned subsidiary, R. L. Drake Holdings, LLC ("**RLD**"), acquired substantially all of the assets and assumed certain specified liabilities of R. L. Drake, LLC, a Delaware limited liability company ("**Seller**"), pursuant to an Asset Purchase Agreement dated as of February 1, 2012, as amended by a certain First Amendment to Asset Purchase Agreement dated February 3, 2012 (as so amended, the "**Asset Purchase Agreement**") (the "**RLD Acquisition**"). The assets acquired from Seller include assets used in manufacturing and delivering electronic communications solutions for cable television systems, digital television reception, video signal distribution and digital video encoding, including equipment, supplies and other tangible personal property, inventory, accounts receivable, business records, trademarks and other intellectual property rights. The purchase price was comprised of approximately \$6,477,000 paid at closing, subject to certain adjustments based upon a post-closing audit of the balance sheet of Seller, plus contingent purchase price payments of up to \$1,500,000

in the aggregate that may be made over the next three years if certain financial results are realized.

RLD manufactures and distributes similar products to those currently being produced by the Company. The acquisition allows the Company to leverage the combined research and development and sales and marketing departments to shorten the development and manufacturing cycle and deliver a more complete compliment of business and product solutions for the markets the Company serves.

The Company's manufacturing is allocated primarily between its facility in Old Bridge, New Jersey and a key contract manufacturer located in the People's Republic of China ("PRC"). The Company currently manufactures most of its digital products, including the latest encoder and EdgeQAM collections at its New Jersey facility. Since 2007 the Company has transitioned and continues to manufacture certain high volume, labor intensive products, including many of the Company's analog products, in the PRC, pursuant to a manufacturing agreement that governs the production of products that may from time to time be the subject of purchase orders submitted by (and in the discretion of) the Company. The Company may transition additional products to the PRC if determined by the Company to be advantageous based upon changing business and market conditions. Manufacturing products both at the Company's Old Bridge facility as well as in the PRC, enables the Company to realize cost reductions while maintaining a competitive position and time-to-market advantage. As a result of the RLD Acquisition, the Company acquired a leased manufacturing, engineering, sales and administrative facility in Franklin, Ohio at which the RLD products are manufactured. The lease for this facility expires in November, 2012. The Company does not intend to renew this lease, however it does anticipate securing alternative smaller space in or around Franklin, Ohio, the exact nature of which has not as yet been determined. The Company intends to transition manufacturing of certain RLD products from the Ohio facility to the Old Bridge facility during 2012.

The Company may, from time to time, provide manufacturing, research and development and product support services for other companies' products. In December 2007, the Company entered into an agreement to provide manufacturing, research and development and product support to Buffalo City Center Leasing, LLC ("**Buffalo City**") for an electronic on-board recorder that Buffalo City was producing for Turnpike Global Technologies, LLC (which was purchased in 2010 by, and operates as a division of, XATA Corporation ("**XATA**"). A director of the Company is also the managing member and a vice president of Buffalo City and may be deemed to control the entity which owns fifty percent (50%) of the membership interests of Buffalo City. The Company received \$2,968,000 and \$2,331,000 in revenue from Buffalo City in 2011 and 2010, respectively. In addition, the Company's accounts receivable included \$960,000 (21% of total accounts receivable) and \$767,000 (21% of total accounts receivable) due from Buffalo City at December 31, 2011 and 2010, respectively. The agreement with Buffalo City expired by its terms in the first quarter of 2011, however, Buffalo City continued purchasing such product from the Company through July, 2011 on the same terms and conditions. In the second quarter of 2011, the Company entered into a new agreement directly with XATA Corporation (the "**XATA Agreement**"), which sets forth the terms and conditions of purchases by XATA of the next generation of the product. The XATA Agreement also permits XATA to obtain financing from approved third party lenders to finance its purchases from the Company. In November 2011, the Company and Buffalo City entered into a letter agreement (the "**Buffalo City Agreement**") to memorialize the agreement by which the Company approved Buffalo City to act as an approved third party lender to XATA and has permitted Buffalo City (in this capacity) to purchase products from the Company on open account with a credit limit of \$1,000,000, the terms for payment of which were net 110 days after shipment. Under the terms of the XATA Agreement, the obligations of Buffalo City to the Company are guaranteed by XATA. During the first quarter of 2012, Buffalo City advised the Company that Buffalo City would no longer be financing products as an approved third-party lender for XATA. As such, effective as of February 10, 2012, the Company and Buffalo City terminated Buffalo City's status as an approved lender under the Buffalo City Agreement. The Company continues to contract manufacture products directly for XATA under the XATA Agreement and does not anticipate that the termination of the Buffalo City Agreement will have any adverse impact on aggregate sales of these contract manufactured products.

The Company was incorporated under the laws of the State of Delaware in November 1988 and completed its initial public offering in December 1995.

Strategy

It is a constant challenge for the Company to stay at the forefront of the technological requirements of the markets that it serves, including the cable television system, MDU, lodging/hospitality and institutional markets. Changes and developments in the manner in which information (whether video, telephony or internet) is transmitted as well as the use of alternative compression technologies, all require the Company to continue to develop innovative new products. The Company continually adds the resources needed to create innovative products to respond to the demand for digital signal generation and transmission. The Company's key product lines are more thoroughly discussed under "Key Products" beginning on page 8. The ongoing evolution of the Company's product lines focuses on the increased needs created in the digital space by digital video, IPTV and HDTV signals and the transport of these signals over state of the art broadband networks.

The Company's principal product users are:

- TV broadcasters,

Cable system operators that design, package, install and in most instances operate, upgrade and maintain the systems they build,

Lodging/Hospitality video and high speed internet system operators that specialize in the Lodging/Hospitality Markets, and

Institutional system operators that operate, upgrade and maintain the systems that are in their facilities, or contractors that install, upgrade and maintain these systems in a variety of applications including schools, universities, hospitals, prisons, corporations, sports stadiums and airports.

A key component of the Company's growth strategy is to leverage its reputation across a broad product line, offering one-stop shop convenience to the cable, broadcast and professional markets and delivering products having a high performance-to-cost ratio. The Company has historically enjoyed, and continues to enjoy, a leading position in the cable markets that it serves. The Company provides integrated network solutions for operators in the multi-dwelling unit market, the lodging/hospitality market and the institutional market.

In response to the market pressure to compete with Far East manufactured products, the Company manufactures certain high volume, labor intensive products in the PRC.

Markets Overview

The television industry has been dominated by the traditional cable operator, who subsequently expanded into high-speed internet and telephony services. The penetration of wireless and direct-broadcast satellite ("DBS") (such as DIRECTV® and DISH Network®) in the TV market, continues to grow with a combined subscriber count in excess of 33 million. Telephone companies (i.e. Verizon and AT&T) also compete with the cable operators for services and continue to expand their fiber optic networks, on a national level, delivering video, high-speed internet and telephony services direct to the home or to the curb. Cable operators are deploying MPEG IP transport to the edge of their networks via fiber optic networks and converting those IP streams to RF channels so they can continue to provide conventional video services over existing two-way coax networks. Their plans are to expand the reach of fiber optic networks to take fiber closer to the customer and to the user.

The long term result of these activities is increased competition for the provision of services and a trend toward delivery of these services through fiber using IP technology. This continuing major market transition has resulted in increased consumer expectations, placing the lodging and institutional markets under pressure to install new infrastructure and upgrade existing networks. It is not known how long this transition will take but to remain competitive, the Company must continue to increase its product offerings for digital television, encoding and decoding and digital media applications.

With IPTV technology comes additional market pressures and opportunities. First, there is the matter of alternative TV services riding “Over the Top” of existing infrastructures or (OTT television), where the delivered video is not part of the service provider’s own video service. Examples include Web-video services like NetFlix, Hulu, and Apple TV. An additional advent is “TV Everywhere” where video is displayed not only on the traditional television, but also on personal computers and mobile devices. Cable operators are trying to tackle not only the technology issues associated with these offerings, but content management and customer authentication. The idea that the consumer is at the center, and not the hardware or the network, is revolutionizing how video (and media) content is delivered.

Cable Television

Most cable operators, both large and small, have built networks with various combinations of fiber optic and coax cable to deliver television, internet and phone services on one drop cable. Cable television deployment of fiber optic trunk has been completed in nearly all existing systems. The HFC network architecture is employed to provide analog video, digital video, HDTV, high speed internet, Video on Demand (VOD) and digital telephone service. With the adoption of new standards by CableLabs®, the cable industry is using edge devices, node splitting and digital video switching to increase both services and subscriber capacity from each node.

The Company believes that most major metropolitan areas will eventually have complex networks of two or more independent operators interconnecting homes and multi-dwelling complexes. All of these networks are potential users of our Digital Video Headend Products including, Encoders, EdgeQAM and Digital Video solutions.

Lodging

Historically, cable operators serving the lodging market sought to provide more channels (especially in HD), VOD and enhanced interactivity in response to property owners seeking additional revenue streams and guests demanding increased in room technology services. Initially installed in mostly large hotels, smaller hotels and motels continue to be outfitted with enhanced technology to provide a full suite of HD channels and VOD.

More recently, the competition among cable providers to the hospitality industry has shifted from emphasis on VOD to demand for an ever increasing number of HD programs provided free to each guest room. The Company believes that the demand for HD based headends that support free-to-guest service and, accordingly, our EdgeQAM Pro:Idiom products, will grow for several years. The rate of growth may be limited by the cost associated with replacing all televisions in a hotel with a flat screen Pro:Idiom compatible television.

Institutional

The Company defines the institutional market to include: educational campus environments, correctional facilities, short or long term health service environments, sports stadiums and airport terminals. What all of these seemingly unrelated facilities have in common is that they all contain private networks that are dependant on either locally generated or externally sourced video and/or data content. As the advanced technologies of distance learning, HDTV and IPTV permeate the market, institutional facilities are embracing these technologies to achieve site specific goals. The Company traditionally benefited from a very strong share of this market with its Analog Video Headend and Distribution Products. We anticipate that we will continue to be a leader in this market with our Digital Video Headend Products, which include HD encoders, EdgeQAM, Digital Video solutions and our evolving IPTV platforms.

International

The Company has authorized distributors and sales agents in various locations outside the United States, but the Company primarily manufactures product for sale in the USA. Historically, international sales have not materially contribute to the Company's revenue base. As a result of the RLD Acquisition, the Company anticipates that its international sales in Canada will increase. RLD maintains a physical presence in Canada, including a stock of

inventory, two sales personnel and one sales support person. The Company expects to leverage on RLD's predecessor's success in Canada, which should result in increased product sales.

Additional Considerations

The technological revolution with respect to video, internet and telephone services continues at a rapid pace. Cable TV's QAM video is competing with DIRECTV® and EchoStar's DBS service and cable modems compete with digital subscriber lines and fiber-to-the-home offered by the regional telephone companies. The telephone companies are building national fiber networks and are now delivering video, internet and telephone services directly to the home over fiber optic cable, and digital telephone is being offered by cable companies and others in competition with traditional phone companies. The convergence of data and video communications continues, wherein computer and television systems merge. This merging of technologies is extending services to mobile smart phone devices and tablet computers with over the air data delivery competing with cable delivered services.

Since most of the installed base of United States television sets are still analog sets (not digital), DBS television, digitally compressed programming and IP delivery require headend products or set-top decoding receivers or converters to convert the transmitted signals back to analog. The replacement of substantially all analog television sets with digital sets will be costly and take years to complete. The majority of service providers continue 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. Most operators are simulcasting both analog and digital services and imposing additional charges upon their customers for the use of HD digital set top boxes.

Key Products

Blonder Tongue's products can be separated according to function and technology. Three key categories account for the majority of the Company's revenue (Analog Video Headend, Digital Video Headend, and HFC Distribution):

- **Analog Video Headend Products** used by a system operator for signal acquisition, processing and manipulation to create an analog channel lineup for further transmission: Among the products offered by the Company in this category are integrated receiver/decoders (IRD's), modulators, demodulators, channel combiners and processors. The headend is the "brain" of an analog television signal distribution system. It is the central location where multiple channels are 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, a receiver will also be required to decode the signal. Even though this market is mature, Blonder Tongue continues to develop products to maintain market share. For example, several new analog products were launched in response to the "CALM" Act (the Commercial Advertisement Loudness Mitigation Act (CALM, H.R. 1084/S. 2847)), initially proposed in 2008 and signed into law in December 2010. The CALM Act requires the FCC to prescribe regulations limiting the volume of audio on commercials transmitted by television broadcast stations, cable operators and other multichannel video programming distributors. This law addresses a widespread consumer complaint regarding the abrupt loudness of television advertisements and mandates that the volume levels of commercial breaks be consistent with the volume level of the related programming. The Company estimates that Analog Video Headend Products accounted for approximately 26% and 27% of the Company's revenues in 2011 and 2010, respectively.
- **Digital Video Headend Products** used by a system operator for acquisition, processing and manipulation of digital video signals: Blonder Tongue continues to expand its Digital Product offerings to meet the changing needs of its customers. The latest additions include the EdgeQAM collection and the HD encoder collection which includes a line of HD and SD MPEG-2 encoders and multiplexers. This trend is expected to be continued in 2012 with addition of H.264 encoders. Among the other digital products provided by Blonder Tongue are: the Quadrature Phase Shift Key ("QPSK") to QAM transcoders, digital QAM up-converters and multiplexers and digital 8VSB/QAM HD television processors for delivery of HDTV programming and agile QAM Modulators.

Encoders accept and auto-detect various input sources (analog and/or digital) and output digitally encoded HD or SD video in various output formats such as Asynchronous Serial Interface (ASI) or QAM. The QAM outputs may be used for digital video distribution over typical private coax networks in a variety of institutional environments (i.e. sports arenas, broadcast and cable television studios, airports, hospitals, university campuses, etc.). ASI is a streaming data format which carries the MPEG-2 Transport Stream. As a complement to the encoder line, Blonder Tongue also provides digital QAM multiplexers which take multiple inputs (ASI or 8VSB/QAM) and deliver a single multiplexed QAM output thereby optimizing the HD channel line up by preserving bandwidth.

EdgeQAM devices accept Ethernet input and capture MPEG over IP transport streams, decrypt service provider conditional access or content protection, and insert proprietary conditional access, such as Pro:Idiom, into the stream. These streams are then combined and modulated on to QAM RF carriers in most cases providing multiple streams on to one 6MHz digital channel. Inputs to EdgeQAM devices can come from satellite receivers, set top boxes, network devices or video servers. The use of these devices add flexibility for the service provider, in part, because all of this routing happens in one device. Scaling is accomplished via software and modules embedded inside the hardware. Since it is a true network device, the EdgeQAM can be managed over a traditional Ethernet network or over the Internet.

The QPSK to QAM transcoders (QTM Series) are used for economically deploying or adding a satellite-based digital programming tier of digital or HDTV digital programming. The unit transcodes a satellite signal's modulation from QPSK to QAM or from 8PSK (HDTV Format) to QAM. Since QPSK and 8PSK are optimum for satellite transmission and QAM is optimum for fiber/coax distribution, precious system bandwidth is saved while the signal retains its digital information. Building upon the innovative design work that brought about the QTM transcoders, QAM up-converters and HDTV processors, the Company launched a series of ATSC/QAM demodulators. Digital Video Headend Product use continues to expand in all of the Company's primary markets, bringing more advanced technology to consumers and operators, and it is expected that this area will continue to be a major element of the Company's business. The Company estimates that Digital Video Headend Products accounted for approximately 34% and 42% of the Company's revenues in 2011 and 2010, respectively.

- **HFC Distribution Products** used to transport signals from the headend to their ultimate destination in a home, apartment unit, hotel room, office or other terminal location along a fiber optic, coax or HFC distribution network: Among the products offered by the Company in this category are broadband amplifiers, directional taps, splitters and wall outlets for coax distribution and fiber optic transmitters, receivers (nodes), and couplers. In cable television systems, the HFC 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 coax 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 that HFC Distribution products accounted for approximately 18% and 17% of the Company's revenues in 2011 and 2010, respectively.

- **Other Products.**

There are a variety of other products that the Company sells to a lesser degree, either to fill a customer need or where sales have reduced due to changes in Company direction, technology, or market influences. Sales of products in these categories have not contributed significantly to the Company's revenues in 2011 and are expected to remain this way for 2012. These products include:

Digital Transition, providing system operators the means to adapt to the FCC mandated transition in broadcast television from analog to digital signals.

Addressable, controlling access to analog programming at the subscriber's location.

Reception, receiving off-air broadcast television and satellite transmissions prior to headend processing.

High-Speed Internet, providing broadband internet access over a HFC network.

Technical Services, including hands-on training, system design engineering, on-site field support and complete system verification testing.

Miscellaneous, filling customers needs for satellite distribution, test equipment, and parts.

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 a customer to accept such products does not generally result in the Company being 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 features of existing products in order to accommodate customer demand for greater capability, (iii) license new technology, and (iv) acquire products incorporating technology that could not otherwise be developed quickly enough using internal resources. 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. Projects may also be a result of new technologies that become available, or new market application of existing technology. In the new product development process, the vast experience of the Company's Engineering Group is leveraged to ensure the highest level of suitability and widest acceptance in the marketplace. Products tend to be developed in a functional building block approach that allows for different combinations of blocks to generate new relevant products. Additional research and development efforts are also continuously underway for the purpose of enhancing product quality and engineering lower production costs. For the acquisition of new technologies, the Company may rely upon technology licenses from third parties. The Company will also license technology if it can obtain technology more quickly, or more cost-effectively from third parties than it could otherwise develop on its own, or if 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, 2011 and 22 as of February 19, 2012 as a result of the RLD Acquisition. The Company's research and development expenses were \$2,716,000 and \$2,508,000 for the years ended December 31, 2011 and 2010, respectively. It is anticipated that research and development expenses may increase during 2012 and thereafter as a result of the RLD Acquisition.

Marketing and Sales

Blonder Tongue markets and sells its products to a wide range of markets including: cable television system, MDU, the lodging/hospitality industry, and institutional systems. The Company also sells into a multitude of niche markets. Sales are made directly to customers by the Company's internal sales force, as well as through Premier Authorized Stocking Distributors (which accounted for approximately 50% and 42% of the Company's revenues for fiscal 2011 and 2010, respectively). These distributors serve multiple markets. Direct sales to cable operators and system integrators accounted for approximately 8% and 5% of the Company's revenues for fiscal 2011 and 2010, respectively.

The Company's sales and marketing function is performed predominantly 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 or target market opportunities. The Company's internal sales force consists of 23 employees, which currently includes six salespersons in Old Bridge, NJ, one salesperson in Round Rock, TX, one in San Diego, CA, three salespersons in Franklin, OH, two sales persons in Peterborough, Ontario, Canada, one sales support person in Peterborough, Ontario and nine 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, when circumstances warrant, such as a commitment to a large blanket purchase order, the Company will extend 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 and also maintains a robust website. The Company 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.

Customers

Blonder Tongue has a diverse customer base, which in 2011 consisted of approximately 276 active accounts. Approximately 61% and 64% of the Company's revenues in fiscal years 2011 and 2010, respectively, were derived from sales of products to the Company's five largest customers. In 2011 and 2010, sales to World Cinema Inc. accounted for approximately 14% and 28%, respectively, of the Company's revenues. In addition, Toner Cable Equipment, Inc. accounted for approximately 22% and 15% of the Company's revenues in 2011 and 2010, respectively. A third customer, Buffalo City Center Leasing accounted for approximately 11% of the Company's revenues in 2011 and less than 10% in 2010. 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 World Cinema and Toner Cable Equipment, Inc. will continue to account for a significant portion of the Company's revenues in future periods. Although neither of these customers is obligated to purchase any specified amount of products or to provide the Company with binding forecasts of product purchases for any future period, World Cinema committed to purchase approximately \$2.2 million of EQAM-400 through the third quarter of 2012 in order to maintain its exclusive right to purchase such product. The Company's sales to Buffalo City ceased in early 2012, as a result of the termination of Buffalo City's status as an approved third party lender to finance purchases of certain contract manufactured products for XATA. During 2011, and as permitted by the XATA Agreement, XATA's purchases of contract manufactured products were made, primarily through Buffalo City. The Company anticipates that substantially all purchases of such contract manufactured products will hereafter be made by XATA directly from the Company and that sales volume of such products to XATA during 2012 should be consistent with the Company's aggregate sales volume of such products to Buffalo City and XATA during 2011.

During 2010, the Company renewed multi-year contracts in regard to its Premier Distributor Program. This program began in 2007 and has been successful for the Company. Under this program, a limited group of larger distributors who stock a significant amount of the Company's products in their inventory are given access to a special purchase incentive program allowing them to achieve volume price concessions measured on a year-to-year basis. Many of the Company's smaller business customers, with whom the Company had formerly dealt on a direct basis, now purchase the Company's products from these Premier Distributors.

In the Company's direct sales to system integrators, the complement of leading customers tends to vary over time as the most efficient and better financed integrators grow more rapidly than others. 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 that 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 some revenues from customers in other geographical markets, primarily Canada and to a more limited extent, in developing countries. Sales to customers outside of the United States represented approximately 3% and 2% of the Company's revenues in 2011 and 2010, respectively. All of the Company's transactions with customers

located outside of the United States have historically been denominated in U.S. dollars, therefore, the Company has had no material foreign currency transactions. As a result of the RLD Acquisition, the Company anticipates that certain sales to customers located in Canada during 2012 and thereafter may be denominated in Canadian Dollars. Transactions denominated in foreign currencies have certain inherent risks associated with them due to currency fluctuations. See "Risk Factors" below for more detail on the risks associated with foreign currency transactions.

Manufacturing and Suppliers

Blonder Tongue's primary manufacturing operations are presently located at the Company's headquarters in Old Bridge, New Jersey. In addition, the Company maintains a smaller manufacturing facility in Franklin, OH. The Company's manufacturing operations are vertically integrated and consist principally of the programming, 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 improvements to the manufacturing process to increase production volume and reduce product cost, including logistics modifications on the factory floor to accommodate increasingly fine pitch surface mount electronic components. In 2008, these improvements resulted in assemblies of 16 layer PCBs with thousands of components including placement of 0.030x0.030mil ball grid arrays and 0402 packaged sized components. These advancements required investment in upgrading automatic placement equipment as well as automated optical inspection and testing systems. 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.

Beginning in 2007 the Company transitioned and continues to manufacture certain high volume, labor intensive products, including many of the Company's analog products, in the PRC. A key contract manufacturer in the PRC produces such products as may be requested by the Company from time to time (in the Company's discretion) through the submission of purchase orders, the terms of which are governed by a manufacturing agreement. The Company does not currently anticipate the transfer of any additional products to the PRC, however this may change if business and market conditions make it advantageous to do so. In connection with the Company's initiatives in the PRC, the Company may have foreign currency transactions and may be subject to various currency exchange control programs related to its PRC operations. See "Risk Factors" below for more detail on the risk of foreign operations.

Outside contractors supply standard components, printed circuit boards and electronic subassemblies to the Company's specifications. While the Company generally purchases electronic parts that 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 may 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 EchoStar digital receivers for delivery of DISH Network® programming, and DirecTV® digital satellite receivers for delivery of DIRECTV® programming. An inability to timely obtain sufficient quantities of certain of these components would 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. See "Risk Factors" below for more detail on the risk associated with sole supplier products.

Blonder Tongue maintains a quality assurance program which monitors and controls manufacturing processes, and extensively tests samples throughout the process. Samples of component parts purchased are tested, as well as its finished products, on an ongoing basis. The Company also tests component and sub-assembly boards throughout the manufacturing process using commercially available and in-house built testing systems that incorporate proprietary procedures. The highest level of quality assurance is maintained throughout all aspects of the design and manufacturing process. The extensive in-house calibration program assures test equipment integrity and correlation. This program ensures that all test and measurement equipment that is used in the manufacturing process is calibrated to the same in-house reference standard on a consistent basis. When all test and measurement devices are calibrated in this manner, discrepancies are eliminated between the engineering, manufacturing and quality control departments, thus increasing operational efficiency and ensuring a high level of product quality. Blonder Tongue performs final product tests prior to shipment to customers. In 2008, the Company was certified to perform Underwriters Laboratories (UL) witness testing of products to UL International Standard 60950.

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 that 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, quality, price, terms, service, technical support and administrative support. The Company believes it differentiates itself from competitors by continuously offering innovative products, providing excellent technical service support and delivering high performance-to-cost ratio products.

Intellectual Property

The Company currently holds several United States and foreign patents, none of which are considered material to the Company's present operations, since they do not relate to high volume applications. Because of the rapidly evolving nature of the cable television industry, the Company believes that its market position as a supplier to cable integrators derives primarily from its ability to develop a continuous stream of new products that are designed to meet its customers' needs and that have a high performance-to-cost ratio.

The Company owns a United States trademark registration for the word mark “Blonder Tongue®” and also on a “BT®” logo. RLD owns a United States trademark registration for the word mark “DRAKE®”.

Since 2008, the Company obtained and renewed licenses for a variety of technologies in concert with its new digital encoder line of products. The licenses are from a number of companies including Dolby Laboratories Licensing Corporation (expires August 2013), Digital Content Protection, LLC (expires April 30, 2012), DTLA (expires April 30, 2012), and LG Electronics (expires December 2012). These standard licenses are all non-exclusive and require payment of royalties based upon the unit sales of the licensed products. With regard to the licenses expiring in 2012, the Company expects to renew these standard licenses on similar terms. For additional information regarding these licenses, see “Introduction – Recent Developments” starting on page 3.

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

Regulation

Private cable, while in some cases subject to certain FCC licensing requirements, is not presently burdened with extensive government regulations. The Telecommunications Act of 1996 deregulated many aspects of franchise cable system operation and opened the door to competition among cable operators and telephone companies in each of their respective industries.

Environmental Regulations

The Company is subject to a variety of Federal, state and local governmental regulations related to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in its manufacturing processes. The Company did not incur in 2011 and does not anticipate incurring in 2012 material capital expenditures for compliance with Federal, state and local environmental laws and regulations. There can be no assurance, however, that changes in environmental regulations will not result in the need for additional capital expenditures or otherwise impose additional financial burdens on the Company. Further, such regulations could restrict the Company’s ability to expand its operations. Any failure by the Company to obtain required permits for, control the use of, or adequately restrict the

discharge of, hazardous substances under present or future regulations could subject the Company to substantial liability or could cause its manufacturing operations to be suspended.

The Company has authorization to discharge wastewater under the New Jersey Pollution Discharge Elimination System/Discharge to Surface Waters General Industrial Stormwater Permit, Permit No. NJ0088315. This permit will expire May 31, 2012. The Company intends to renew this permit. RLD does not require any material environmental permits in connection with the operation of its business.

Employees

As of February 19, 2012 (after giving effect to the RLD Acquisition which resulted in the addition of 44 people), the Company employed approximately 205 people, including 130 in manufacturing, 22 in research and development, 7 in quality assurance, 23 in sales and marketing, and 23 in a general and administrative capacity. 205 of these employees are full time employees. 54 of the Company's employees are members of the International Brotherhood of Electrical Workers Union, Local 2066, which has a three year labor agreement with the Company that was scheduled to expire in February 2012, but was extended on the same terms and conditions for an additional one year, until February 2013.

ITEM 1A RISK FACTORS

The Company's business operates in a rapidly changing environment that involves numerous risks, some of which are beyond the Company's control. The following "Risk Factors" highlights some of these risks. Additional risks not currently known to the Company or that the Company now deems immaterial may also affect the Company and the value of its Common Stock. The risks described below, together with all of the other information included in this report, should be carefully considered in evaluating our business and prospects. The occurrence of any of the following risks could harm the Company's business, financial condition or results of operations. Solely for purposes of the risk factors in this Item 1A, the terms "we," "our" and "us" refer to Blonder Tongue Laboratories, Inc. and its subsidiaries.

Any substantial decrease in sales to our largest customers may adversely affect our results of operations or financial condition.

In 2011 and 2010, sales to World Cinema accounted for approximately 14% and 28%, respectively, while sales to Toner Cable Equipment Inc. accounted for approximately 22% and 15%, respectively, of our revenues. A third customer, Buffalo City Center Leasing accounted for approximately 11% of the Company's revenues in 2011. There can be no assurance that any sales to these customers will reach or exceed historical levels in any future period. We anticipate, however, that World Cinema and Toner Cable will continue to account for a significant portion of our revenues in future periods, although they are not obligated to purchase any specified amount of products (beyond outstanding purchase orders) or to provide us with binding forecasts of product purchases for any future period. World Cinema, committed to purchase approximately \$2.2 million of EQAM-400 through the third quarter of 2012 in order to maintain its exclusive right to purchase such product. The Company's sales to Buffalo City ceased in early 2012, as a result of the termination of Buffalo City's status as an approved third party lender to finance purchases of certain contract manufactured products for XATA. Although not obligated to purchase such contract manufactured products, the Company anticipates that direct purchases of such products by XATA during 2012 should be consistent with the Company's aggregate sales volume of such products to Buffalo City and XATA during 2011.

With respect to our direct sales to system integrators, the complement of leading customers tends to vary over time as the most efficient and better-financed integrators grow more rapidly than others. Our success with these customers will depend in part on:

- the viability of those customers;
- our ability to identify those customers with the greatest growth and growth prospects; and
- our ability to maintain our position in the overall marketplace by shifting our emphasis to such customers.

Approximately 61% of our revenues in 2011 were derived from sales to our five largest customers. Any substantial decrease or delay in sales to one or more of our leading customers, the financial failure of any of these entities, their inability to pay their trade accounts owing to us, or our inability to develop solid relationships with integrators that may replace the present leading customers, could have a material adverse effect on our results of operations and financial condition.

A significant increase to inventory reserves due to inadequate reserves in a prior period or to an increase in excess or obsolete inventories may adversely affect our results of operations and financial condition.

We continually analyze our slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, we establish reserves. If we do not meet our sales expectations, these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. We recorded an increase in reserve of \$275,000 and \$620,000 during 2011 and 2010 respectively. Although we believe reserves are adequate and inventories are reflected at net realizable value, there can be no assurance that we will not have to record additional inventory reserves in the future. Significant increases to inventory reserves could have a material adverse effect on our results of operations and financial condition.

An inability to develop, or acquire the rights to technology, products or applications in response to changes in industry standards or customer needs may reduce our sales and profitability.

Both the private cable and franchised cable industries are characterized by the continuing advancement of technology, evolving industry standards and changing customer needs. To be successful, we must anticipate the evolution of industry standards and changes in customer needs, through the timely development and introduction of new products, enhancement of existing products and licensing of new technology from third parties. This is particularly true at this time as the Company must develop and market new digital products to offset the continuing decline in demand for and therefore sales of, analog products. Although we depend primarily on our own research and development efforts to develop new products and enhancements to our existing products, we have and may continue to seek licenses for new technology from third parties when we believe that we can obtain such technology more quickly and/or cost-effectively from such third parties than we could otherwise develop on our own, or when the desired technology has already been patented by a third party. There can, however, be no assurance that new technology or such licenses will be available on terms acceptable to us. There can be no assurance that:

we will be able to anticipate the evolution of industry standards in the cable television or the communications industry generally;

- we will be able to anticipate changes in the market and customer needs;
- technologies and applications under development by us will be successfully developed; or
- successfully developed technologies and applications will achieve market acceptance.

If we are unable for technological or other reasons to develop and introduce products and applications or to obtain licenses for new technologies from third parties in a timely manner in response to changing market conditions or customer requirements, our results of operations and financial condition could be materially adversely affected.

Anticipated increases in direct and indirect competition with us may have an adverse effect on our results of operations and financial condition.

All aspects of our business are highly competitive. We compete with national, regional and local manufacturers and distributors, including companies larger than us, which have substantially greater resources. Various manufacturers who are suppliers to us sell directly as well as through distributors into the cable television marketplace. 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 us. Many of these potential competitors have

significantly greater financial, technical, manufacturing, marketing, sales and other resources than we have. We expect that direct and indirect competition will increase in the future. Additional competition could have a material adverse effect on our results of operations and financial condition through:

- price reductions;
- loss of market share;
- delays in the timing of customer orders; and
- an inability to increase our penetration into the cable television market.

Our sales and profitability may suffer due to any substantial decrease or delay in capital spending by the cable infrastructure operators that we serve in the MDU, lodging and institutional cable markets.

The vast majority of our revenues in fiscal years 2011 and 2010 came from sales of our products for use by cable infrastructure operators. Demand for our products depends to a large extent upon capital spending on private cable systems and specifically by private cable operators for constructing, rebuilding, maintaining or upgrading their systems. Capital spending by private cable operators and, therefore, our sales and profitability, are dependent on a variety of factors, including:

- access by private cable operators to financing for capital expenditures;
- demand for their cable services;

- availability of alternative video delivery technologies; and
- general economic conditions.

In addition, our sales and profitability may in the future be more dependent on capital spending by traditional franchise cable system operators as well as by new entrants to this market planning to over-build existing cable system infrastructures, or constructing, rebuilding, maintaining and upgrading their systems. There can be no assurance that system operators in private cable or franchise cable will continue capital spending for constructing, rebuilding, maintaining, or upgrading their systems. Any substantial decrease or delay in capital spending by private cable or franchise cable operators would have a material adverse effect on our results of operations and financial condition.

We may be adversely affected by current economic and market conditions.

During 2010 and 2011, the U.S. economy continued to feel the effects of the significant economic downturn that began in 2008, resulting in elevated levels of financial market volatility, customer uncertainty and widespread concerns about the U.S. and world economies. The ongoing effect of these circumstances may negatively impact the demand for our products and our allowance for doubtful accounts, all of which may have a material adverse effect on our business, financial condition and results of operations. In addition, the economic crisis has had a material and direct impact on financial institutions, resulting in a deterioration of liquidity in the capital markets. This liquidity crunch could adversely affect our ability and the ability of our customers to borrow funds to support operations or other liquidity needs (including the ability to finance capital expenditures) or otherwise borrow or raise capital. Moreover, our stock price could decrease if investors have concerns that our business, financial condition or results of operations will be negatively impacted by a worldwide economic downturn.

Any significant casualty to our facility in Old Bridge, New Jersey may cause a lengthy interruption to our business operations.

We primarily operate out of one manufacturing facility in Old Bridge, New Jersey (the “**Old Bridge Facility**”). While we maintain a limited amount of business interruption insurance, a casualty that results in a lengthy interruption of our ability to manufacture at, or otherwise use, that facility could have a material adverse effect on our results of operations and financial condition. Pursuant to the RLD Acquisition, we also presently operate out of a manufacturing facility in Franklin, Ohio, our lease of which expires in November 2012. Given the short term transitional nature of this facility we do not believe that it provides the Company with significant reduction of the risks described herein.

Our dependence on certain third party suppliers could create an inability for us to obtain component products not otherwise available or to do so only at increased prices.

