

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

BLONDER TONGUE LABORATORIES INC
Form 10-Q
November 09, 2006

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, 2006,

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

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

9, 2006: 7,515,406.

The Exhibit Index appears on page 21.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	(unaudited) Sept 30, <u>2006</u>	December 31, <u>2005</u>
Assets (Note 5)		
Current assets:		
Cash.....	\$144	\$787
Accounts receivable, net of allowance for doubtful accounts of \$833 and \$863 respectively.....	4,551	3,567
Inventories (Note 4).....	8,702	9,649
Prepaid and other current assets.....	497	490
Deferred income taxes	651	651
	-----	-----
Total current assets.....	14,545	15,144
Inventories, non-current (net) (Note 4).....	4,996	4,866
Property, plant and equipment, net of accumulated depreciation and amortization	5,790	6,184
Patents, net	1,583	1,864
Rights-of-Entry, net (Note 6).....	611	720
Other assets, net.....	1,303	1,388
Investment in Blonder Tongue Telephone LLC (Note 6).....	-	993
Deferred income taxes	1,705	1,705
	-----	-----
	\$30,533	\$32,864
	=====	=====
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt (Note 5).....	\$2,859	\$4,249
Accounts payable.....	2,449	2,231
Accrued compensation.....	498	598
Accrued benefit liability.....	185	185
Income taxes payable.....	462	491
Other accrued expenses	211	282
	-----	-----
Total current liabilities.....	6,664	8,036

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

Long-term debt (Note 5).....	3,124	3,329
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.....	24,371	24,202
Retained earnings.....	3,528	3,565
Accumulated other comprehensive loss.....	(821)	(821)
Treasury stock, at cost, 949 and 449 shares.....	(6,341)	(5,455)
Total stockholders' equity.....	20,745	21,499
	\$30,533	\$32,864

See accompanying notes to consolidated financial statements.

2

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2006	2005	2006	2005
Net sales.....	\$9,578	\$9,666	\$29,977	\$28,343
Cost of goods sold.....	5,823	9,719	19,305	23,010
Gross profit (loss).....	3,755	(53)	10,672	5,333
Operating expenses:				
Selling.....	1,211	1,207	3,564	3,397
General and administrative.....	1,810	1,639	5,306	4,973
Research and development.....	389	372	1,190	1,178
	3,410	3,218	10,060	9,548
Earnings (loss) from operations.....	345	(3,271)	612	(4,215)
Other Expense:				
Interest expense (net).....	(170)	(190)	(542)	(586)
Equity in loss of Blonder Tongue Telephone, LLC.....	-	(55)	(107)	(246)
	(170)	(245)	(649)	(832)
Net income (loss).....	\$175	\$(3,516)	\$(37)	\$(5,047)

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

Basic and diluted income				
(loss) per share.....	\$0.02	\$ (0.44)	\$ -	\$ (0.63)
	=====	=====	=====	=====
Basic and diluted weighted average				
shares outstanding.....	7,515	8,015	7,845	8,015

See accompanying notes to consolidated financial statements.

3

BLONDER TONGUE LABORATORIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended Sept 30,	
	2006	2005
	-----	-----
Cash Flows From Operating Activities:		
Net loss.....	\$ (37)	\$ (5,047)
Adjustments to reconcile net loss to cash provided by operating activities:		
Stock compensation expense.....	169	-
Equity in loss from Blonder Tongue Telephone, LLC.....	107	246
Depreciation.....	755	746
Amortization	481	477
Allowance for doubtful accounts.....	270	-
Provision for inventory reserves.....	-	4,372
Changes in operating assets and liabilities:		
Accounts receivable.....	1,254	(975)
Inventories.....	817	744
Prepaid and other current assets.....	(7)	57
Other assets.....	85	(192)
Income taxes.....	(29)	872
Accounts payable, accrued compensation and other accrued expenses.	47	437
	-----	-----
Net cash provided by operating activities...	1,404	1,737
	-----	-----
Cash Flows From Investing Activities:		
Capital expenditures.....	(361)	(731)
Acquisition of rights-of-entry.....	(91)	(3)
	-----	-----
Net cash used in investing activities.....	(452)	(734)
	-----	-----
Cash Flows From Financing Activities:		
Borrowings of debt.....	26,521	10,740
Repayments of debt.....	(28,116)	(11,709)
	-----	-----

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

Net cash used in financing activities.....	(1,595)	(969)
	-----	-----
Net increase (decrease) in cash.....	(643)	34
	-----	-----
Cash, beginning of period.....	787	70
	-----	-----
Cash, end of period.....	\$144	\$104
	=====	=====
Supplemental Cash Flow Information:		
Cash paid for interest.....	\$501	\$ 586
Cash paid for income taxes.....	\$ 29	\$ -

See accompanying notes to consolidated financial statements.

4

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). 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") are accounted for on the equity method since the Company does not have control over these entities. Information relating to the Company's rights and obligations with regard to BTT and NetLinc are summarized in Note 1(a) to the Company's Form 10-K for the year ended December 31, 2005. However, on June 30, 2006, the Company sold its ownership interest in BTT. See Note 6.

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"), to manufacture products in the People's Republic of China. This joint venture was formed to compete with the Far East manufactured products and to expand market coverage outside North America. On June 9, 2006, the Company decided to terminate 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, in part, by the failure of Master Gain to contribute the \$5,850 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.

The results for the third quarter and the first nine months of 2006 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

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

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, 2006. 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, 2005.

Note 2 - New Accounting Policies

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Accounting for Fair Value Measurements." SFAS No. 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company for financial statements issued subsequent to November 15, 2007. The Company does not believe adoption of SFAS No. 157 will have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans." Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company will adopt SFAS 158 in the fourth quarter of 2006 on a prospective basis. The Company currently measures the funded status of its plan as of the date of its year-end statement of financial position.

Based on the Company's unfunded obligation as of December 31, 2005, the adoption of SFAS 158 would increase total liabilities by approximately \$50 and reduce total stockholders' equity by approximately \$50. The adoption will not have a material impact on the Company's results of operations and cash flows. In

5

addition, the adoption of SFAS No. 158 will not impact compliance with the Company's loan covenants. By the time of adoption at December 31, 2006, plan performance and actuarial assumptions could have a significant impact on the actual amounts recorded.

Note 3 - Stock Options

The Company implemented FAS 123(R) in the first quarter of 2006. The statement requires companies to expense the value of employee stock options and similar awards. Under FAS 123(R) share-based payment awards result in a cost that will be measured at fair value on the awards' grant date based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest will not be reversed if the awards expire without being exercised. Stock compensation expense under FAS 123(R) was \$169 during the nine

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

months ended September 30, 2006.

The Company estimates the fair value of each stock option grant by using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants made during the nine months ended September 30, 2006 and 2005, respectively: expected lives of 6.3 and 9.5 years, no dividend yield, volatility at 72% and 73%, and risk free interest rate of 4.65% and 3.2%.

The following tables summarize information about stock options outstanding for the nine months ended September 30, 2006

	1994 Plan(#)	Weighted- Average Exercise Price(\$)	1995 Plan(#)	Weighted- Average Exercise Price(\$)	1996 Plan(#)	Weighted- Average Exercise Price (\$)	2005 Employee Plan (#)	Weighted- Average Exercise Price(\$)	2005 Dire Plan
Shares under option:									
Outstanding at									
January 1, 2006	23	3.40	1,026	5.24	153	4.28	80	3.76	
Granted	-	-	-	-	-	-	327	1.905	5
Exercised	-	-	-	-	-	-	-	-	
Forfeited	(3)	3.48	(22)	5.24	-	-	(2)	3.76	
Options outstanding at September 30, 2006	20	3.48	1,004	5.23	153	4.28	405	2.26	5
Options exercisable at September 30, 2006	20	3.48	983	5.25	153	4.28	78	3.76	
Weighted-average fair value of options granted during 2006	-		-		-		\$1.39		\$1.2
Weighted-average remaining contractual life	4.0		3.7		5.7		9.6		9.

At January 1, 2006, all options were 100% vested. There were no unvested forfeited options during the nine months ended September 30, 2006. The weighted average fair value of the 377 options granted during the nine months ended September 30, 2006 was \$1.32. All of the options are non-vested.

At September 30, 2006, there was \$433 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 3 years.

6

Under accounting provisions of FAS 123(R), the Company's net loss to common stockholders and net loss per common share would have been adjusted to the pro forma amounts indicated below during the three and nine months ended September 30, 2005 (in thousands, except per share data):

(unaudited)	(unaudited)
Three Months	Nine Months
Ended	Ended

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

	Sept 30, 2005	Sept 30, 2005
Net loss as reported	\$ (3,516)	\$ (5,047)
Adjustment for fair value of stock options.	160	478
Pro forma.....	\$ (3,676)	\$ (5,525)
Net loss per share basic and diluted:		
As reported.....	\$ (0.44)	\$ (0.63)
Pro forma.....	\$ (0.46)	\$ (0.69)

Note 4 - Inventories

Inventories net of reserves are summarized as follows:

	(unaudited) Sept 30, 2006	Dec. 31, 2005
Raw Materials.....	\$10,303	\$10,071
Work in process.....	1,425	2,102
Finished Goods.....	10,686	11,058
Less current inventory.....	(8,702)	(9,649)
Less Reserve primarily for excess inventory....	(8,716)	(8,716)
	\$4,996	\$4,866

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

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

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.

7

Note 5 - 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 provides 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 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.

Under the Credit Agreement, the Revolving Loan bears interest at a rate per annum equal to the Libor Rate Plus 2.25%, or the "Alternate Base Rate," being the higher of (i) the prime lending rate announced from time to time by the Bank or (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement), plus 0.50%. The Term Loan bears interest at a rate per annum equal to the Libor Rate plus 2.75% or the Alternate Base Rate plus 0.50%. 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.

In March 2006, the Credit Agreement was amended to (i) modify the definition of "EBITDA" to exclude certain non-cash items from the calculation thereof, (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, (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, and (iv) retroactively modify the agreement to defer applicability of the fixed charge coverage ratio until June 30, 2006 and increase the required ratio from 1.00:1.00 to 1.10:1.00 thereunder.

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

Proceeds from the Credit Agreement were used to refinance the Company's then existing credit facility with Commerce Bank, N.A. ("Commerce Bank"), to pay transaction costs, to provide working capital and for other general corporate

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

purposes.

The Company's former credit facility with Commerce Bank was originally entered into on March 20, 2002. The Commerce Bank credit facility was for an aggregate amount of \$18,500 comprised of (i) a \$6,000 revolving line of credit under which funds could be borrowed at the prime rate plus 2.0% with a floor of 5.5%, (ii) a \$9,000 term loan which bore interest at a rate of 7.5% and which required equal monthly principal payments of \$193 plus interest with a final payment on April 1, 2006 of all of the remaining unpaid principal and interest, and (iii) a \$3,500 mortgage loan bearing interest at 7.5% and which required equal monthly principal payments of \$19, with a final payment on April 1, 2017, subject to a call provision after five years.

Note 6 - Cable Systems and Telephone Products (Subscribers and passings in whole numbers)

During June, 2002, BDR Broadband, a subsidiary of the Company, acquired certain rights-of-entry for multiple dwelling unit cable television and high-speed data systems (the "Systems"). As a result of the Company acquiring additional rights-of-entry, the Systems are currently comprised of approximately

8

3,300 existing MDU cable television subscribers and approximately 8,400 passings. In addition, the Systems were upgraded with approximately \$799 and \$331 of interdigitation and other products of the Company during 2005 and 2004, respectively. During 2004, two Systems located outside the region where the remaining Systems are located, were sold. It is planned that the Systems will be upgraded with approximately \$400 of additional products of the Company during 2006. In October 2006, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Priority Systems, LLC ("Priority") for nominal consideration and agreed to pay Priority a fee equal to ten percent (10%) of the amount, if any, by which the net proceeds derived by the Company from a divestiture of BDR Broadband occurring on or before April 19, 2007, exceeds the Company's aggregate investment in BDR Broadband (which includes amounts advanced to or paid on behalf of BDR Broadband by the Company and the value of goods and services received by BDR Broadband from the Company, plus interest at 10% per annum) since inception.

The Company's consolidated financial statements include the accounts of BDR Broadband.

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

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

telephony products that allow Competitive Local Exchange Carriers ("CLECs") to competitively provide voice service to multiple dwelling units ("MDUs"). BTT partners with CLECs to offer primary voice service to MDUs, receiving a portion of the line charges due from the CLECs' telephone customers, and the Company offers for sale a line of telephony equipment to complement the voice service. Certain distributorship agreements were entered into among NetLinc, BTT and the Company pursuant to which the Company ultimately acquired the right to distribute NetLinc's telephony products to private and franchise cable operators as well as to all buyers for use in MDU applications. However, the Company can also purchase similar telephony products directly from third party suppliers other than NetLinc and, in connection therewith, the Company would pay certain future royalties to NetLinc and BTT from the sale of these products by the Company. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not presently anticipate purchasing products from NetLinc. NetLinc, however, continues to own intellectual property, which may be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements. The Company accounts for its investments in NetLinc and BTT using the equity method.

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) must be used solely for the purchase of telephony equipment and the remaining one-third (1/3rd) of which (\$130) may 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

9

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 7 - 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 is also the largest stockholder. Under the agreement, Mr. Williams provides consulting services on various operational and financial issues and is currently paid at an annual rate of \$169 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, 2006.

As of September 30, 2006, the Chief Executive Officer was indebted to the Company in the amount of \$169, 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 September 30, 2006 and December 31, 2005.

As described in Note 6 above, 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 6 above, 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. The Company will continue to pay future royalties to NetLinc upon the sale of certain telephony products.

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

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

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 Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 1A - Risk Factors. 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, 2005 (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 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 integrators (both franchise and private cable operators, as well as contractors) that design, package, install and in most instances operate, upgrade and maintain the systems they build.

A key component of the Company's strategy is to leverage the Company's reputation by broadening its product line to offer one-stop shop convenience to private cable and franchise cable system integrators and to deliver products having a high performance-to-cost ratio. The Company continues to expand its core product lines (headend and distribution), to maintain its ability to provide all of the electronic equipment needed to build small cable systems and much of the equipment needed in larger systems for the most efficient operation and highest profitability in high density applications.

In March, 1998, the Company acquired all of the assets and technology rights, including the SMI Interdiction product line, of the interdiction business (the "Interdiction Business") of Scientific-Atlanta, Inc. ("Scientific"). The Company utilizes the Scientific SMI Interdiction product line, which has been engineered primarily to serve the franchise cable market, as a supplement to the Company's VideoMask(TM) Interdiction products, which are

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

primarily focused on the private cable market.

In September 2006, the Company's wholly owned subsidiary, Blonder Tongue Investment Company, signed an agreement to sell selected patents to Moonbeam L.L.C., for net proceeds of approximately \$2,000,000. In connection with the sale, the Company will retain a non-exclusive, royalty free, worldwide license

11

to continue to develop, manufacture, use, sell, distribute and otherwise exploit all of the Company's products currently protected under these patents. The products to which these patents relate include some of the Interdiction lines that were acquired from Scientific. The closing of the sale under this agreement is subject to customary closing conditions and is anticipated to occur prior to the end of 2006.

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, on June 30, 2006, the Company sold its ownership interest in Blonder Tongue Telephone, LLC. These acquisitions are described in more detail below.

During June, 2002, BDR Broadband, a subsidiary of the Company, acquired certain rights-of-entry for multiple dwelling unit cable television and high-speed data systems (the "Systems"). As a result of the Company acquiring additional rights-of-entry, the Systems are currently comprised of approximately 3,300 existing MDU cable television subscribers and approximately 8,400 passings. In addition, the Systems were upgraded with approximately \$799,000 and \$331,000 of interdiction and other products of the Company during 2005 and 2004, respectively. During 2004, two Systems located outside the region where the remaining Systems are located, were sold. It is planned that the Systems will be upgraded with approximately \$400,000 of additional products of the Company during 2006. The Company believes that BDR Broadband's model for acquiring and operating the Systems has been successful and can be replicated for other transactions. The Company also believes that opportunities currently exist to acquire additional rights-of-entry for multiple dwelling unit cable television, high-speed data and/or telephony systems. BDR Broadband is seeking and is presently negotiating several such opportunities, although there is no assurance that it will be successful in consummating these transactions. While the Company continues to invest in and expand BDR Broadband's business, the Company has recently determined to seek a buyer for BDR Broadband and exit the business of operating Systems in Texas. This decision was made for a variety of reasons. The typical financial model and valuation methodology for businesses such as BDR Broadband is based primarily upon cash flow, as opposed to net income. Since such businesses are capital intensive, their net income is adversely affected by the substantial depreciation expense associated with high levels of capital assets. The Company is pleased with the performance of BDR Broadband, however as it is a growing business, all of its cash flow plus additional capital has historically been reinvested in System installations and upgrades. Further, BDR Broadband's depreciation expense causes its business to operate at a net loss, which adversely affects the results of operations of the Company. As the Company is refocusing its efforts on its core manufacturing business and the shift of production of certain of its products to the Far East (as more fully described below), the divestiture of BDR Broadband should provide the Company with substantial liquidity in the form of cash and will eliminate the adverse effect

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

of BDR Broadband on the Company's results of operations. In October 2006, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Priority Systems, LLC ("Priority") for nominal consideration and agreed to pay Priority a fee equal to ten percent (10%) of the amount, if any, by which the net proceeds derived by the Company from a divestiture of BDR Broadband occurring on or before April 19, 2007, exceeds the Company's aggregate investment in BDR Broadband (which includes amounts advanced to or paid on behalf of BDR Broadband by the Company and the value of goods and services received by BDR Broadband from the Company, plus interest at 10% per annum) since inception.

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.

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 partners with CLECs to offer primary voice service to MDUs, receiving a portion of the line charges due from the CLECs' telephone customers, and the Company offers for sale a line of telephony equipment to complement the voice service. Certain distributorship agreements were entered into among NetLinc, BTT and the Company pursuant to which the Company ultimately acquired the right to distribute NetLinc's telephony products to private and franchise cable operators as well as to all buyers for use in MDU applications. However, the Company can also purchase similar telephony products directly from third party suppliers other than NetLinc and, in connection therewith, the Company would pay certain future royalties to NetLinc and BTT from the sale of these products by the

12

Company. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not anticipate purchasing products from NetLinc in the near term. NetLinc, however, continues to own intellectual property, which may be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements.

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. In addition, the Company granted BTT a non-transferable equipment purchase credit in the aggregate amount of \$400,000 (subject to certain off-sets as set forth in the Share Exchange Agreement); two-thirds (2/3rds) of which (\$270,000) must be used solely for the purchase of telephony equipment and the remaining one-third

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

(1/3rd) of which (\$130,000) may be used for either video/data equipment or telephony equipment. The equipment credit expires automatically in six (6) months, on December 31, 2006. The Company's equity in loss of BTT was approximately \$437,000 and \$613,000 for the fiscal years ended December 31, 2005 and 2004, respectively. If the proposed sale of BDR Broadband occurs in 2006, the Company estimates that the divestiture of these two businesses (BTT and BDR Broadband) should result in an annualized improvement to the Company's net income of approximately \$600,000 in 2007.

It has been the Company's experience that the time frame from introduction of a telephony service opportunity to consummation of the associated right-of-entry agreement, is longer than had been anticipated when the Company first entered into this segment of its business. This protracted time frame has had an adverse impact on the growth of telephony system revenues and played a role in the Company's decision to enter into the Share Exchange Agreement described above. As a result of the transactions contemplated by the Share Exchange 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 November 11, 2005, the Company and its wholly-owned subsidiary, Blonder Tongue Far East, LLC, entered into a Joint Venture Agreement ("JV Agreement") with Master Gain International Industrial, Limited, a Hong Kong corporation ("Master Gain"), for the manufacturing of products in the People's Republic of China (the "Joint Venture"), pursuant to which the parties subsequently caused the formation of Blonder Tongue International Holdings, Ltd., a British Virgin Islands company ("BTIH"). On June 9, 2006 (The "Termination Date"), the Company sent notice to Master Gain of the Company's election to terminate the JV Agreement and exercise its right to purchase Master Gain's fifty percent (50%) ownership interest in BTIH, which the Company anticipates will be for nominal consideration.

The Company decided to terminate the JV Agreement due to the Joint Venture's failure to meet certain quarterly financial milestones set forth in the JV Agreement. The inability to meet such financial milestones was caused, in part, 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.

The JV Agreement contemplated the formation of several new entities, including a new Chinese manufacturing company to be owned (directly or indirectly) by BTIH. In addition, the Joint Venture was, among other things, to be granted a license from the Company to use certain of the Company's technology and know-how ("License") in connection with the manufacture of certain products, and was to be appointed as the exclusive distributor of such products in the Asian, Southeast Asian, African, European, Middle Eastern and Australian markets. It was further anticipated that the Joint Venture would seek out and acquire other technology and rights from third parties, including all of Master Gain's right, title and interest in and to the cable modem termination system ("CMTS") hardware and software technology and know-how (collectively, the "New Technology"), and manufacture products developed from the New Technology, for which the Company was to be appointed as the exclusive distributor in the North American, South American and Caribbean markets. As of the Termination Date, BTIH was the only entity that had been formed by the Joint Venture, the Company had not granted the License to the Joint Venture and no New Technology had been

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

acquired by the Joint Venture.

Master Gain is an affiliate of Shenzhen Junao Technology Company Ltd. ("Shenzhen"), which purchased T.M.T. - Third Millennium Technologies Ltd. ("TMT"), the manufacturer and supplier of the Company's MegaPort(TM) line of high-speed data communications products, from Octalica, Inc. ("Octalica") in

13

February 2006. Also in February 2006, the Company amended its distribution agreement with TMT to expand its distribution territory, favorably amend certain pricing and volume provisions, and extend by 10 years the term of the distribution agreement for its MegaPort(TM) product line. As part of the transaction, the Company was required to guaranty the payment by Shenzhen to Octalica of the purchase price for TMT, equal to \$383,150, plus an earn-out. In exchange for the guaranty, the Company obtained assignable options to acquire substantially all of the assets and assume certain liabilities of TMT, or alternatively, to acquire from Shenzhen all of the outstanding capital stock of TMT, on substantially the same terms as the acquisition of TMT by Shenzhen from Octalica. These options expire on February 26, 2007, and are extendable by the Company for an additional 90 days thereafter. The Company has not, as yet, determined whether or when such options may be exercised. In addition, the Company is involved in other ongoing transactions with Master Gain and Shenzhen related to the CMTS technology.

Although the termination of the JV Agreement has delayed the Company's efforts to shift production of its products to the Far East, the Company continues to believe that shifting production of its products to the Far East is in the best interests of the Company. The Company believes that the production and procurement of its core products in the Far East will reduce the Company's costs, thereby improving its gross margins and allowing a more aggressive marketing program in the private cable market. The shift to the Far East will also provide the Company access to, and potential acquisition of, advanced technologies, including technology in the hybrid fiber coax (HFC) transmission, the IPTV core passive component and high speed data fields, and will facilitate the Company's ability to sell to private and franchised cable operators in the Pacific Rim. The Company intends to continue actively pursuing opportunities in the Far East, either independently or through a joint venture relationship with alternative joint venture partners.

Results of Operations

Third three months of 2006 compared with third three months of 2005

Net Sales. Net sales decreased \$88,000, or 0.9%, to \$9,578,000 in the third three months of 2006 from \$9,666,000 in the third three months of 2005. The decrease in sales is primarily attributed to a decrease in interdiction product sales offset by an increase in fiber product sales. Interdiction product sales were \$319,000 and \$733,000 and fiber product sales were \$647,000 and \$274,000 in the third three months of 2006 and 2005, respectively.

Cost of Goods Sold. Cost of goods sold decreased to \$5,823,000 for the

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

third three months of 2006 from \$9,719,000 for the third three months of 2005 and decreased as a percentage of sales to 60.8% from 100.6%. The decrease was attributed primarily to cost of goods sold for the third three months of 2005 included a \$3,494,000 increase in the provision for inventory reserves. Comparatively, there was no increase in such reserves for the third three months of 2006. Of the 39.8 % improvement in cost of goods sold as a percentage of sales, approximately 36.1% was associated with the increase in inventory reserves in the third three months of 2005, which adversely affected the Company's cost of goods sold for such period. The remaining decrease was attributed to a higher portion of sales in the third three months of 2006 being comprised of higher margin products.

Selling Expenses. Selling expenses increased to \$1,211,000 for the third three months of 2006 from \$1,207,000 in the third three months of 2005 and increased as a percentage of sales to 12.6% for the third three months of 2006 from 12.5% for the third three months of 2005. The \$4,000 increase was primarily the result of an increase in freight expense of \$35,000 offset by a decrease in departmental supplies of \$41,000.

General and Administrative Expenses. General and administrative expenses increased to \$1,810,000 for the third three months of 2006 from \$1,639,000 for the third three months of 2005 and increased as a percentage of sales to 18.9% for the third three months of 2006 from 16.9% for the third three months of 2005. The \$171,000 increase was primarily the result of an increase in BDR Broadband operating expenses of \$214,000 offset by a decrease in professional fees of \$44,000.

Research and Development Expenses. Research and development expenses increased to \$389,000 in the third three months of 2006 from \$372,000 in the third three months of 2005 and increased as a percentage of sales to 4.1% for the third three months of 2006 from 3.9% for the third three months of 2005. This \$17,000 increase is primarily due to an increase in consulting fees of \$5,000, an increase of departmental supplies of \$5,000 and an increase of maintenance expenses of \$5,000.

14

Operating Income (Loss). Operating income of \$345,000 for the third three months of 2006 represents an increase from an operating loss of \$3,271,000 for the third three months of 2005. Operating income as a percentage of sales increased to 3.6% in the third three months of 2006 from a loss of (33.8%) in the third three months of 2005.

Other Expense. Interest expense decreased to \$170,000 in the third three months of 2006 from \$190,000 in the third three months of 2005. The decrease is the result of lower average borrowings.

Income Taxes. The provision for income taxes for the third three months of 2006 and 2005 was zero. A valuation allowance has been recorded on the 2006 and 2005 deferred tax assets. As a result of the Company's historical losses, there is no change in the remaining deferred tax asset in 2006 or 2005.

First nine months of 2006 compared with first nine months of 2005

Net Sales. Net sales increased \$1,634,000, or 5.8%, to \$29,977,000 in the first nine months of 2006 from \$28,343,000 in the first nine months of 2005. The

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

increase in sales is primarily attributed to an increase in digital, headend and fiber product sales. Digital product sales were \$3,714,000 and \$3,374,000, headend product sales were \$14,536,000 and \$14,006,000, and fiber product sales were \$1,403,000 and \$812,000 in the first nine months of 2006 and 2005, respectively.

Cost of Goods Sold. Cost of goods sold decreased to \$19,305,000 for the first nine months of 2006 from \$23,010,000 for the first nine months of 2005 and decreased as a percentage of sales to 64.4% from 81.2%. The decrease was attributed primarily to cost of goods sold for the first nine months of 2005 included a \$4,373,000 increase in the provision for inventory reserves. Comparatively, there was no increase in such reserves for the first nine months of 2006. Of the 16.8% improvement in cost of goods sold as a percentage of sales, approximately 1.4% was associated with a higher portion of sales in the first nine months of 2006 being comprised of higher margin products and the remaining 15.4% of such improvement was associated with the increase in inventory reserves in the first nine months of 2005, which adversely affected the Company's cost of goods sold for such period.

Selling Expenses. Selling expenses increased to \$3,564,000 for the first nine months of 2006 from \$3,397,000 in the first nine months of 2005 but remained constant as a percentage of sales of 11.9% for both the first nine months of 2006 and for the first nine months of 2005. The \$167,000 increase was primarily the result of an increase in travel and entertainment of \$77,000 and an increase in freight expense of \$72,000.

General and Administrative Expenses. General and administrative expenses increased to \$5,306,000 for the first nine months of 2006 from \$4,973,000 for the first nine months of 2005 and increased as a percentage of sales to 17.7% for the first nine months of 2006 from 17.6% for the first nine months of 2005. The \$333,000 increase was primarily the result of an increase in BDR Broadband operating expenses of \$454,000 offset by a decrease in professional fees of \$225,000.

Research and Development Expenses. Research and development expenses increased to \$1,190,000 in the first nine months of 2006 from \$1,178,000 in the first nine months of 2005 but decreased as a percentage of sales to 3.9% for the first nine months of 2006 from 4.2% for the first nine months of 2005. This \$12,000 increase is primarily due to an increase in consulting fees of \$43,000 offset by a decrease in departmental supplies of \$8,000, a decrease in depreciation expense of \$9,000 and a decrease in salaries and fringe benefits of \$6,000 due to decreased headcount.

Operating Income (Loss). Operating income of \$612,000 for the first nine months of 2006 represents an increase from an operating loss of \$4,215,000 for the first nine months of 2005. Operating income as a percentage of sales increased to 2.0% in the first nine months of 2006 from (14.9%) in the first nine months of 2005.

Other Expense. Interest expense decreased to \$542,000 in the first nine months of 2006 from \$586,000 in the first nine months of 2005. The decrease is the result of lower average borrowings.

Income Taxes. The provision for income taxes for the first nine months of 2006 and 2005 was zero. A valuation allowance has been recorded on the 2006 and 2005 deferred tax assets. As a result of the Company's historical losses, there is no change in the remaining deferred tax asset in 2006 or 2005.

Liquidity and Capital Resources

As of September 30, 2006 and December 31, 2005, the Company's working capital was \$7,881,000 and \$7,108,000, respectively. The increase in working

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

capital is attributable primarily to a decrease of the current portion of

15

long-term debt of \$1,390,000 and an increase in net accounts receivable of \$984,000 offset by a decrease in current inventory of \$947,000 and a decrease in cash of \$643,000.

The Company's net cash provided by operating activities for the nine-month period ended September 30, 2006 was \$1,404,000, compared to \$1,737,000 for the nine-month period ended September 30, 2005. The decrease is attributable primarily to an increase in accounts receivable of \$1,254,000 during the nine-month period ended September 30, 2006, as compared to an increase of \$975,000 during the nine-month period ended September 30, 2005.

Cash used in investing activities for the nine-month period ended September 30, 2006 was \$452,000 which was primarily attributable to capital expenditures for new equipment and upgrades to the BDR Broadband Systems of \$361,000.

Cash used in financing activities was \$1,595,000 for the first nine months of 2006 primarily comprised of \$28,116,000 of repayments offset by \$26,521,000 of borrowings 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 provides 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.

Under the Credit Agreement, the Revolving Loan bears interest at a rate per annum equal to the Libor Rate Plus 2.25%, or the "Alternate Base Rate," being the higher of (i) the prime lending rate announced from time to time by the Bank or (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement), plus 0.50%. The Term Loan bears interest at a rate per annum equal to the Libor Rate plus 2.75% or the Alternate Base Rate plus 0.50%. 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.

In March 2006, the Credit Agreement was amended to (i) modify the definition of "EBITDA" to exclude certain non-cash items from the calculation thereof, (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, (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, and (iv) retroactively modify the agreement to defer applicability of the fixed charge coverage ratio until June 30, 2006 and increase the required ratio from 1.00:1.00 to 1.10:1.00 thereunder.

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

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.

Proceeds from the Credit Agreement were used to refinance the Company's former credit facility with Commerce Bank, N.A. ("Commerce Bank"), to pay transaction costs, to provide working capital and for other general corporate purposes.

The Company's former credit facility with Commerce Bank was originally entered into on March 20, 2002. The Commerce Bank credit facility was for an aggregate amount of \$18,500,000, comprised of (i) a \$6,000,000 revolving line of credit under which funds could be borrowed at the prime rate plus 2.0% with a floor of 5.5%, (ii) a \$9,000,000 term loan which bore interest at a rate of 7.5% and which required equal monthly principal payments of \$193,000 plus interest with a final payment on April 1, 2006 of all of the remaining unpaid principal and interest, and (iii) a \$3,500,000 mortgage loan bearing interest at 7.5% and which required equal monthly principal payments of \$19,000, with a final payment on April 1, 2017, subject to a call provision after five years.

16

At September 30, 2006, there was \$2,564,000 and \$3,325,000 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 Policies

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Accounting for Fair Value Measurements." SFAS No. 157 defines fair value, and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for the Company for financial statements issued subsequent to November 15, 2007. The Company does not believe adoption of SFAS No. 157 will have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans." Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS No. 158 is effective for fiscal years

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

ending after December 15, 2006. The Company will adopt SFAS 158 in the fourth quarter of 2006 on a prospective basis. The Company currently measures the funded status of its plan as of the date of its year-end statement of financial position.

Based on the Company's unfunded obligation as of December 31, 2005, the adoption of SFAS 158 would increase total liabilities by approximately \$50,000 and reduce total stockholders' equity by approximately \$50,000. The adoption will not have a material impact on the Company's results of operations and cash flows. In addition, the adoption of SFAS No. 158 will not impact compliance with the Company's loan covenants. By the time of adoption at December 31, 2006, plan performance and actuarial assumptions could have a significant impact on the actual amounts recorded.

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, 2006 and 2005 the principal amount of the Company's aggregate outstanding variable rate indebtedness was \$5,889,000 and \$4,041,000, respectively. A hypothetical 100 basis point increase in interest rates would have had an annualized unfavorable impact of approximately \$59,000 and \$40,000, 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, 2006.

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

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

Company's internal control over financial reporting.

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, or results of operations.

ITEM 1A. RISK FACTORS

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 ("2005 Form 10-K") includes a detailed discussion of the risk factors that could cause the Company's actual results to differ materially from those stated in forward-looking statements contained in this Quarterly Report on Form 10-Q. The risk factors described below are only those risk factors that have materially changed since the Company filed the 2005 Form 10-K. Accordingly, the risk factors presented below should be read in conjunction with the risk factors and information disclosed in the Company's 2005 Form 10-K. 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.

Our anticipated international operations in the PRC or elsewhere in the Far East may subject us to the risks of unfavorable political, regulatory, legal, and labor conditions in the PRC or elsewhere in the Far East.

We intend to continue actively pursuing opportunities to shift production of certain products to the Far East and perhaps also establish a manufacturing facility for our products in the Peoples' Republic of China (or PRC) or elsewhere in the Far East. If successful, this may increase the amount of revenues we derive from sales to customers outside the United States, including sales in the PRC. Our future operations and earnings may be adversely affected by the risks related to, or any other problems arising from, operating in the PRC or in other countries located in the Far East, including the risks of changes in foreign currency exchange rates, changes in foreign telecommunications standards, and unfavorable political, regulatory, labor and tax conditions in other countries. Although the PRC has a large and growing economy, its potential economic, political, legal and labor developments entail uncertainties and risks. Similar risks exist in most if not all of the other countries in the Far East where we would consider shifting production of certain of our products. While the PRC and other Far Eastern countries have been receptive to foreign investment, we cannot be certain that their current policies will continue indefinitely into the future. In the event we establish a manufacturing facility in the PRC or other country in the Far East, any changes that adversely affect our ability to conduct our operations may cause our business to suffer.

Shifting our operations between regions may entail considerable expense.

If we were to establish a manufacturing facility in the PRC or elsewhere in the Far East and ultimately commence production of certain products at this facility, such action could require us, over time, to shift a material portion of our operations to the Far East in order to maximize manufacturing and operational efficiency. This could result in reducing our domestic operations in the future, which in turn could entail significant one-time earnings charges to account for severance, equipment write offs or write downs and moving expenses.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

18

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

The exhibits are listed in the Exhibit Index appearing at page 21 herein

19

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 9, 2006

By: /s/ James A. Luksch
James A. Luksch
Chief Executive Officer

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

20

EXHIBIT INDEX

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

Exhibit #	Description	Location
3.1	Restated Certificate of Incorporation of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.1 to S-1 Registration Statement No. 33-98070 originally filed October 12, 1995, as amended.
3.2	Restated Bylaws of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.2 to S-1 Registration Statement No. 33-98070 originally filed October 12, 1995, as amended.
10.1	Patent Purchase Agreement between Blonder Tongue Investment Company and Moonbeam L.L.C. dated as of September 12, 2006.	Incorporated by reference from Exhibit 99.1 to the Current Report on Form 8-K filed on September 18, 2006.
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.

21

Exhibit 31.1

CERTIFICATION

I, James A. Luksch, Chief Executive Officer of Blonder Tongue Laboratories, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blonder Tongue Laboratories, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

/s/ James A. Luksch
James A. Luksch
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Eric Skolnik, Senior Vice President and Chief Financial Officer of Blonder Tongue Laboratories, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blonder Tongue Laboratories, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

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

Exhibit 32.1

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

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

To the knowledge of each of the undersigned, this Report on Form 10-Q for the quarter ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of Blonder Tongue Laboratories, Inc. for the applicable reporting period.

Date: November 9, 2006

By: /s/ James A. Luksch
James A. Luksch, Chief Executive Officer

By: /s/ Eric Skolnik
Eric Skolnik, Chief Financial Officer