

BLONDER TONGUE LABORATORIES INC
Form 10-K
April 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017, 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**

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(Address of principal executive offices)

(Zip Code)

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

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

Title of each class	Name of Exchange on which registered
Common Stock, Par Value \$.001	NYSE American

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 (§ 232.405 of this chapter) 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 (§ 229.405 of this chapter) 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, a smaller reporting company, or emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017: \$2,542,581

Number of shares of common stock, par value \$.001, outstanding as of March 15, 2018: 8,210,743

Documents incorporated by reference:

Certain portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders expected to be held on June 26, 2018 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., a Delaware Corporation (“**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” expressions are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth trends in our business and other characterizations of future events or circumstances 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, except as may be required under applicable law. 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, with its subsidiary R. L. Drake Holdings, LLC (“**Drake**”), is a technology-development and manufacturing company that delivers a wide range of products and services to the cable entertainment and media industry. For over 65 years, Blonder Tongue/Drake products have been deployed in a long list of locations, including lodging/hospitality, multi-dwelling units/apartments (“**MDU**”), broadcast studios/networks, universities/schools, healthcare/hospitals, fitness centers, government facilities/offices, prisons, airports, sports stadiums/arenas,

entertainment venues/casinos, retail stores, and small-medium businesses. These applications are also variously described as commercial, institutional, and/or enterprise environments and will be referred to herein collectively as “**CIE**”. The customers we serve include business entities installing private video and data networks in these environments, whether they are the largest cable television operators, telco or satellite providers, integrators, architects, engineers or the next generation of Internet Protocol Television (“**IPTV**”) streaming video providers.

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 65 years Blonder Tongue has been providing innovative solutions based on continually advancing technology, enabling the Company to maintain its position as a leader in many of the CIE markets it serves. Since its founding Blonder Tongue has continued to keep abreast of evolving technologies, from analog to digital television, Hybrid-Fiber Coax (“**HFC**”) networks with Quadrature Amplitude Modulation (“**QAM**”) edge devices, High Definition (“**HD**”) and Ultra HD (4K) encoding and transcoding, IPTV processing and distribution, and Multiscreen Adaptive Bit Rate based services.

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 broadcast linear delivery to the living room TV to live streaming to any device in your home or on the go. Traditional TV content is now available in any format to be viewed on tablets, mobile phones, computers or gaming consoles. Service Operators are migrating their video-on-demand (“**VOD**”) architecture to an internet protocol (“**IP**”) multiscreen ecosystem, which is the first step in transitioning to an all IP-based video delivery system. CIE businesses are upgrading their networks from standard definition (“**SD**”) to deliver HD content to their first screen (TV) and adding the capability of IP streaming, thereby expanding viewer access to HD content on any IP-connected devices. The infrastructure requirements to enable IP streaming provide the Company with an opportunity to market and sell its expanded IP streaming encoders and digital product lines.

While residential growth remains relatively flat, the CIE environment is growing (\$10.44 billion in 2017, up from \$9.3 billion in 2014). The CIE market segments that the Company serves have been focused on the migration to IPTV networks. The Company has expanded its video product line portfolio to address the growth of IP streaming. The Company's newly introduced Scalable Transcode-Encoder Platform ("STEP") transcodes HD/SD video content to Adaptive Bit Rate video profiles supporting multi-screen protocols for further processing into the operator's multiscreen work flow. The Company has collaborated with cable television ("CATV") Multiple System Operators ("MSOs") to produce a cost-effective encoder for IP support of Public Education Government ("PEG") video content. A custom hotel guide solution was developed for MSOs, enabling them to extract guide source data from the headend and transmit it over traditional HFC networks to produce a custom hotel guide at a lower price than the traditional third-party guide solutions. As the industry adopts Ultra-HD (4K) and High Efficiency Video Coding ("HEVC") encoding, the Company plans to produce products to support its traditional customers as well as new customers. 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 150 million IPTV subscribers, and is projected to have 192 million by 2020.

The Company continues to advance the implementation of its strategic plan to maximize shareholder value. The Company's strategic plan consists of the following:

strengthen core business,

continue the heritage of technological development,

expand into new markets, including penetration into MSO and broadcast television markets, as well as the emerging media company market and

increase gross margins.

The Company has entered into and renewed several agreements through which it has acquired rights to use and incorporate certain proprietary technologies in its digital encoder line of products, including:

1. Implementation and System License Agreement with Dolby Laboratories Licensing Corporation ("**Dolby Labs**") 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 Digital Transmission Content Protection ("**DTCP**") 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 Dolby® Labs License Agreement 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. 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 Pro:Idiom users.

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 \$6,957,000 in 2017 and \$7,762,000 in 2016.

The H.264/AVC is a video compression standard that enables a compelling solution for growing IP video services. The H.264 HD Encoder core has the capability to cut the bandwidth requirement for digital video delivery in half when compared against MPEG-2 encoders. This essentially facilitates the transmission of twice the number of programs in a given bandwidth. The use of this H.264 encoding technique enables the Company to provide high quality video at higher resolutions like 720p & 1080i. H.264 is a widely used format for transmitting high quality digital television signals over IP networks. The Company started shipping the H.264 encoders in 2012.

The Company's manufacturing is allocated primarily between its facility in Old Bridge, New Jersey (the "**Old Bridge Facility**") 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 Old Bridge 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. Although the Company does not currently anticipate the transfer of any additional products to the PRC for manufacture, the Company may do so if business and market conditions make it advantageous to do so. Manufacturing products both at the Company's Old Bridge Facility and in the PRC enables the Company to realize cost reductions while maintaining a competitive position and time-to-market advantage.

The Company may, from time to time, provide manufacturing, research and development and product support services for other companies' products. In 2015, the Company entered into an agreement with VBrick Systems, Inc. ("**VBrick**") to provide procurement, manufacturing, warehousing and fulfillment support to VBrick for a line of high end encoder products and sub-assemblies. Sales to VBrick of encoder products were approximately \$840,000 and \$1,176,000 in 2017 and 2016, respectively. Sales to VBrick for sub-assemblies were not material in 2017 or 2016.

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 address of the Company's principal executive offices is One Jake Brown Road, Old Bridge, New Jersey 08857, and its telephone number at that location is (732) 679-4000.

Strategy

It is a constant challenge for the Company to stay at the forefront of the technological requirements of the CIE market segments that it serves. Changes and developments in the manner in which information (whether video, telephony or data) is transmitted, as well as the use of alternative compression and delivery technologies, all require the Company to continue to develop innovative new products. The Company allocates its resources as needed to create innovative products that are responsive 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 7. 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 primary end locations of the Company's product are the CIE environments described above, including lodging/hospitality, multi-dwelling units/apartments, broadcast studios/networks, universities/schools, healthcare/hospitals, fitness centers, government facilities/offices, prisons, airports, sports stadiums/arenas, entertainment venues/casinos, retail stores, and small-medium businesses. We provide a wide range of products to meet the special needs of these applications, and we serve many types of customers, from the large cable companies to private contractors. We sell to anyone putting product into the CIE business market, including:

Television broadcasters;

Cable system operators (both large and small) 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

Commercial/Institutional/Enterprise 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 wide variety of applications.

The key to proactively responding to the needs of the foregoing CIE environments is to build a suite of product solutions that are optimized for the operator's existing infrastructure, as well as future strategy. Operators look for the following features when selecting technology:

Versatility for Now, providing multiple source inputs and different output formats, including simultaneous QAM and IP capability. Off-air local programs, locally generated content, and national broadcasts can all be viewed on televisions via coax, as well as on desktops and other connected devices via an IP network. This allows operators to expand the reach of their video without having to run additional cable throughout the building and optimize the use of coax and/or IP infrastructures.

Flexibility for the Future, recognizing that even if an operator is not utilizing both QAM and IP outputs today, these features may be needed tomorrow. Operators seek to choose scalable technology that can keep up with advances in system architecture and allow them to best leverage existing data and Wi-Fi infrastructure, without overburdening it. This includes considerations for TV Everywhere (bring your own content/device) as well as recently introduced Ultra-HD, also known as 4K.

Affordability, by identifying high-quality, cost-effective, innovative solutions with a strong performance-to-cost ratio, is the key to insuring the operator can offer a competitively priced package to their business and enterprise customers. Focus on the features required for the location and its management, including remote setup, monitoring and diagnostics through an IP interface and hot spare capability.

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 many of the CIE market segments that it serves.

Markets Overview

The television industry has been dominated by traditional cable operators, 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 video market, continues to grow, with a combined subscriber count of almost 48.6 million. Telephone companies (i.e. Verizon and AT&T) also compete with cable operators for services on a national level, delivering video, high-speed internet and telephony services direct to the home or to the curb with an estimate of over 26.6 million subscribers.

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 (“**OTT television**”), where the delivered video is not part of the service provider’s own video service. Examples include Web-delivered video such as Netflix, Hulu and Apple TV. Cable, satellite and telco service providers will need to innovate to provide additional service offerings to compete with lower cost OTT television providers (subscribers exceeding 246.7 million). In addition, content providers such as HBO, SHOWTIME and CBS have deployed their own streaming services, without requiring a cable TV subscription. Streaming service subscribers are now larger than cable TV subscribers. With the advent of “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 technological challenges associated with these offerings, but also 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.

The long term implications of these developments are increased competition for the provision of services and a trend toward delivery of these services 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.

Cable Television

Most cable operators, large and small, have built networks with various combinations of fiber optic and coax cable to deliver television, internet and telephone 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 digital video, VOD, HDTV, IPTV, high speed internet, and digital telephone service. With the adoption of new technology developed 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, to accommodate IPTV offerings in both residential and CIE market deployments. All of these networks are potential users of our product offerings.

Lodging

Historically, in response to lodging property owners seeking additional revenue streams and guests demanding increased in-room technology services, cable operators serving the lodging market sought to provide more channels (especially in HD), VOD, and enhanced interactivity. Initially installed mostly in large hotels, smaller hotels and motels continue to be upgraded and 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 providing an ever-increasing number of HD programs free to each guest room and the capability of offering OTT television. The Company believes that the demand for HD based headends that support free-to-guest service and OTT television, will continue to grow for several years. The rate of growth is limited by the costs associated with replacing all televisions in a hotel with flat screen Pro:Idiom compatible televisions, the infrastructure required to support OTT television, authentication and system management issues.

CIE-Commercial, Institutional, and/or Enterprise

The Company defines its target CIE markets to include educational campus environments, correctional facilities, short and long term health service environments, sports stadiums and airport terminals. All of these seemingly unrelated facilities contain private networks that are dependent 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 following are examples of the types of applications:

PEG Town Hall Meetings and Local Sports

Reception Room TV- Doctors, Dentists and Corporate Offices

Patient Education and Entertainment

Distance Learning

Employee Facing- Training and Company Messaging

Hotel Lobby Events and Advertising

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 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 products for sale in the USA and North America. Historically, international sales have not materially contributed to the Company's revenue base.

Additional Considerations

The evolution of technology 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 regional telephone companies. Telephone companies are building national fiber optic networks and are 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 and content delivery to mobile smart phone devices and tablet computers with over-the-air data delivery competing with cable-delivered services.

Larger MSOs have transitioned or are in the process of transitioning to all-digital platforms (and in some instances MPEG-4/H.264). Satellite DBS television, digitally compressed programming and IP delivery require headend products, set-top decoding receivers, or digital terminal adapters, to convert the transmitted signals back to analog so that they may be viewed on analog television sets. The split of analog and digital offerings provided to customers varies as a function of the size of the operator and their deployment strategy. For example, the majority of private cable and other smaller 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 set-top boxes or digital terminal adapters at each television set.

Key Products

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

Digital Video Headend Products (including Encoders) are used by a system operator for acquisition, processing, compression, encoding and management of digital video. The headend is the center of a digital television system. It is the central location where multiple programs are received and, through additional processing, allocated to specific channels for digital distribution. Blonder Tongue continues to expand its Digital Product offerings to meet the evolving needs of its customers, which is expected to continue for years to come. We offer a broad line of HD and SD, MPEG-2 and MPEG-4/H.264 encoders optimized for the CIE environment. One example is a line of enhanced encoders optimized for the extreme demands of broadcasting live sports, another is a cost effective MPEG-2/H.264 encoder for IP support of PEG channels. The Company's STEP and custom hotel guide products were developed to provide solutions for certain additional needs of the Company's customers and customer prospects, that the Company believes were not being met in a cost effective manner by the Company's competitors. IP interfaces have been added to a wide range of products to help in the migration to IPTV. One such example is the AQT8, a multichannel 8VSB/QAM-IP transcoder that receives off-air broadcast signals and transcodes them for coax and IP distribution. Other lines of digital products provided by Blonder Tongue and Drake include EdgeQAM devices and Satellite Quadrature Phase Shift Key ("QPSK") to QAM transcoders.

Encoders accept 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"), IP and QAM. ASI is a streaming data format which carries the MPEG-2 Transport Stream. The IP output format allows operators to stream video over private data networks with greater reliability and content security. The QAM outputs can be used for digital video distribution over typical private coax networks in a variety of CIE environments (i.e. sports arenas, broadcast and cable television studios, airports, hospitals, university campuses, etc.). 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 lineup by preserving bandwidth. The Company's QAM output MPEG-2 encoders have a low latency feature and superior motion optimization for fast-paced sporting events, which is ideal for live sporting events within a stadium or arena.

ATSC/QAM-IP Transcoder series of products (“**AQT8**”) allow the user to create a customized line up from off-air and/or cable feeds for coax IP distribution. The customizable IP output contains multiple programs with a combination of single and multiple transport streams, from multiple RF input sources. The unique MPEG-2 tables associated with each of the selected input programs are transferred to the IP outputs. This means the virtual channel numbers and program names on the IP outputs can be the same as their RF program input sources. The Company’s AQT8 products enable the user to modify the metadata, including PSIP parameters, such as the Program ID, Program #, Short Name, Major Ch., and Minor Ch. Information, to provide a customized IP program delivery solution. The AQT8-IP features Emergency Alert System (“**EAS**”) program switching through either an ASI or IP format EAS input and terminal block contacts for triggering.

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 adds 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 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. It is expected that this area will continue to be a major component of the Company's business. The Company's Digital Video Headend Products accounted for approximately 41% and 52% of the Company's revenues in 2017 and 2016, respectively.

Analog Video Headend Products are 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 pre-fabricated headends to accommodate legacy analog TV systems, modulators, demodulators, and processors. The Company's Analog Video Headend Products accounted for approximately 8% and 10% of the Company's revenues in 2017 and 2016, respectively.

HFC Distribution Products are 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 utility poles or encased in pedestals, vaults or other security devices. In CIE 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's HFC Distribution Products accounted for approximately 14% and 16% of the Company's revenues in 2017 and 2016, respectively.

Data Products give service providers, integrators, and premise owners a means to deliver data, video, and voice-over-coaxial in locations such as hospitality, MDU's, and college campuses using IP technology. Among the products offered by the Company are CMTS (Cable Modem Termination System) and modem cards. The Company's Data Products accounted for approximately 30% and 12% of the Company's revenues in 2017 and 2016, 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 contributed less significantly to the Company's revenues in 2017 and 2016 and are expected to remain this way for 2018. These products include:

Test instruments, for measuring both digital and analog CATV and Broadcast TV signals, as well as capture, analyze and/ or generate MPEG ASI transport streams.

Contract Manufacturing Services, providing manufacturing, research and development and product support services for other companies' products.

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

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

Miscellaneous products and services, filling customers' needs for satellite distribution, repair, and parts.

The Company will modify its products to meet specific customer requirements. Typically, these modifications are minor and do not materially alter either the product functionality or the ability to sell such altered 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 to accommodate customer demand for greater capability, (iii) license new technologies, 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 result from new technologies that become available, or new market applications 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 lowering 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 18 employees in the research and development department of the Company at December 31, 2017, including five employees located at the Company's facility in Springboro, Ohio and four employees located at the Company's facility in Ft. Wayne, Indiana. The Company's research and development expenses were \$2,452,000 and \$2,741,000 for the years ended December 31, 2017 and 2016, respectively.

Marketing and Sales

Blonder Tongue markets and sells its products for use in a wide range of traditional and CIE markets, including traditional cable television, MDU, lodging/hospitality, and institutional (schools, hospitals and prisons). The Company also sells into a multitude of niche CIE markets such as sports arenas and the cruise ship industry. Sales are made directly to customers by the Company's internal sales force, as well as through Premier Authorized Stocking Distributors. The Company instituted its Premier Distributor Program in 2007, through which a limited group of larger distributors who stock a significant amount of the Company's products in their inventory (Premier Authorized Stocking Distributors) are given access to a special purchase incentive program allowing them to achieve volume price concessions measured on a year-to-year basis. Sales to Premier Authorized Stocking Distributors accounted for approximately 30% and 36% of the Company's revenues for 2017 and 2016, respectively. These Premier Authorized Stocking Distributors serve multiple markets. Direct sales to cable operators and system integrators accounted for approximately 10% and 14% of the Company's revenues for 2017 and 2016, 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

13 employees, including three salespersons in Old Bridge, NJ, one salesperson in Round Rock, TX, one salesperson in Seminole, FL, one salesperson in Springboro, OH, one salesperson in Peterborough, Ontario, Canada, one sales-support person in Springboro, OH, one sales-support person in Cape Coral, FL and four sales-support personnel at the Company's headquarters in Old Bridge, New Jersey.

The Company's standard customer payment terms are 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 2017 consisted of approximately 196 active accounts. Approximately 63% and 53% of the Company's revenues in 2017 and 2016, respectively, were derived from sales of products to the Company's five largest customers. World Cinema, Inc. and Toner Cable Equipment, Inc. accounted for approximately 34% and 13%, respectively, of the Company's revenues in 2017 and approximately 17% and 15%, respectively, of the Company's revenues in 2016. None of these customers are obligated to purchase any specified amount of products or to provide the Company with binding forecasts of product purchases for any future period. Accordingly, there can be no assurance that sales to these entities, individually or as a group, will reach or exceed historical levels in any future period; however, the Company currently anticipates that Toner Cable Equipment, Inc. and World Cinema, Inc. will continue to account for a significant portion of the Company's revenues in future periods. See disclosure below in "Risk Factors – Any substantial decrease in sales to our largest customers may adversely affect our results of operations or financial condition" for further details.

Since 2010, the Company has held multi-year contracts with key distributors in its Premier Distributor Program. This program, which began in 2007, has been quite successful for the Company. 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 Authorized Stocking 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 much more limited extent, in developing countries. Sales to customers outside of the United States represented approximately 7% and 3% of the Company's revenues in 2017 and 2016, respectively. All of the Company's transactions with customers located outside of the United States have historically been denominated in U.S. dollars. As such, the Company has had no material foreign currency transactions from which it derives revenues. However, the Company derived certain relatively limited sales from customers located in Canada during 2017 and 2016 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 Old Bridge Facility, which also serves as the Company's headquarters. The Company has developed, implemented and maintains a Quality Management System, that has been certified as conforming to all requirements of the **ISO 9001:2015** international standard. 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. The Company is capable of manufacturing assemblies of 16 layer printed circuit boards with thousands of components, including placement of 0.030x0.030mil ball grid arrays and 0201 packaged sized components, utilizing its advanced state-of-the-art automatic placement equipment as well as automated optical inspection and testing systems. Investments by the Company in these advanced manufacturing technologies is consistent with and part of the Company's strategy to provide its customers with high performance-to-cost ratio products. The Company also maintains a small sales and engineering facility in Springboro, Ohio and maintains a small engineering facility in Ft. Wayne, Indiana.

Since 2007, the Company has been manufacturing 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 (all of which are proprietary Blonder Tongue designs) 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. Although the Company does not currently anticipate the transfer of any additional products to the PRC for manufacture, the Company may do so 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. In such situations, however, 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. An inability to timely obtain sufficient quantities of certain of these components could have a material adverse effect on the Company's operating results. The Company does not have an agreement with any sole source supplier requiring the supplier to sell a specified volume of components to the Company. 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-assemblies 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, correlation and calibration. 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 developments, 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 is a leader in many of the markets that it serves and differentiates itself from competitors by consistently 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 timely develop a consistent 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. Drake owns a United States trademark registration for the word mark "DRAKE®".

Since 2008, the Company has obtained and renewed licenses for a variety of technologies in concert with its digital encoder line of products. The licenses are from a number of companies including DTLA (expires April 30, 2018), and LG Electronics (expires December 2018). 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 2018, the Company expects to renew these standard licenses on similar terms to those presently in force. For additional information regarding these licenses, see “Introduction – Overview” 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. The industries in which the Company competes are subject to constant development of new technologies and evolution of existing technologies, many of which are the subject of existing third party patents and new patents are issued frequently.

Regulation

Private cable, while in some cases subject to certain Federal Communications Commission (“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 2017 and does not anticipate incurring in 2018, 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, 2018. The Company intends to renew this permit.

Employees

As of February 28, 2018, the Company employed approximately 117 people, including 71 in manufacturing, 18 in research and development, 4 in quality assurance, 13 in sales and marketing, and 11 in a general and administrative capacity. Substantially all of these employees are full time employees. Thirty-four of the Company's employees are members of the International Brotherhood of Electrical Workers Union, Local 2066, which has a labor agreement with the Company that is scheduled to expire in February 2019.

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" highlight 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.

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

Approximately 63% and 53% of our revenues in 2017 and 2016, respectively, were derived from sales of products to the Company's five largest customers. None of these customers are obligated to purchase any specified amount of products or to provide the Company with binding forecasts of product purchases for any future period. Accordingly, there can be no assurance that sales to these entities, individually or as a group, will reach or exceed historical levels in any future period.

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 those 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.

In addition, five and three of our customers, respectively accounted for approximately 74% and 41% of our outstanding trade accounts receivable at December 31, 2017 and 2016, respectively. 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.

An inability to reduce expenses or increase revenues may cause continued net losses.

We have had losses each year since 2010, including a net loss of \$402,000 for the year ended December 31, 2017. While management believes its ongoing efforts to reduce expenses and increase revenues will improve profitability, there can be no assurance that these actions will be successful. Failure to reduce expenses or increase revenues could have a material adverse effect on our results of operations and financial condition.

Inventory reserves for excess or obsolete inventories may adversely affect our results of operations and financial condition.

We continually analyze our excess or 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. 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 2017 and 2016 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.

Adverse changes in economic conditions could adversely affect our business, results of operations and financial condition.

Our business and earnings are affected by general business, economic and financial markets conditions in the United States and elsewhere. We continue to operate in a challenging and uncertain economic environment, and any return to recessionary conditions or prolonged stagnant or deteriorating economic conditions could significantly affect the markets in which we do business, the demand for our products, the ability of our customers to make payments to us in a timely fashion or at all, our ability and the ability of our customers to obtain adequate financing to maintain operations and other potential events that could have a material adverse effect on our business, financial condition and results of operations. Moreover, our stock price could remain depressed or decrease if investors have concerns that our business, financial condition or results of operations will be negatively impacted by a worldwide economic downturn. Other uncertainties, including the potential effect of the recently-announced plans for the United States to impose tariffs on imported steel and aluminum, which are important materials for the production of many of our products, could also have a material adverse effect on our business, financial condition and results of operations.

The terms of our credit facility with Sterling Bank may restrict our current and future operating and financial flexibility and could adversely affect our financial and operational results.

On December 28, 2016, the Company, entered into a new credit facility with Sterling National Bank (“**Sterling**”). The Loan and Security Agreement between the Company and Sterling (the “**Sterling Agreement**”) includes a number of covenants that, among other things, may restrict our ability to:

engage in mergers, consolidations, asset dispositions or similar fundamental changes;

redeem or repurchase shares of Company stock;

create, incur, assume or guarantee additional indebtedness;

create, incur or permit liens on our assets;

make loans or investments;

pay cash dividends or make similar distributions; and

change the nature of our business.

These restrictions in the Sterling Agreement may limit our ability to engage in certain transactions that could be beneficial to us and our stockholders. In addition, the Sterling Agreement also requires us to meet certain financial covenants. A failure by us to comply with the financial or other covenants under the Sterling Agreement could result in an event of default. In the event of a default, Sterling could elect to declare all borrowings, accrued and unpaid interest and other fees outstanding, due and payable, and require us to apply all of our available cash to repay these borrowings, which would likely have a material adverse on our results of operations and financial condition.

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, the Old Bridge Facility could have a material adverse effect on our results of operations and financial condition.

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.

We purchase several products from sole suppliers for which alternative sources are not available. Our results of operations and financial condition could be materially adversely affected by:

an inability to obtain sufficient quantities of these components;

our receipt of a significant number of defective components;

an increase in component prices; or

our inability to obtain lower component prices in response to competitive pressures on the pricing of our products.

Our contract manufacturing in the PRC may subject us to the risks of unfavorable political, regulatory, legal and labor conditions in the PRC.

We manufacture and assemble some of our products in the PRC, under a contract manufacturing arrangement with a certain key Chinese manufacturer. Our future operations and earnings may be adversely affected by the risks related to, or any other problems arising from, having our products manufactured in the PRC, including the following risks:

political, economic and labor instability;

changes in foreign or United States government laws and regulations, including exchange control regulations;

increased costs related to fluctuation in foreign currency exchange rates;

infringement of our intellectual property rights; and

difficulties in managing foreign manufacturing operations.

Although the PRC has a large economy, its potential economic, political, legal and labor developments entail uncertainties and risks. In the event of any changes that adversely affect our ability to manufacture in the PRC after products have been successfully transitioned out of the United States, our business could suffer.

Shifting our operations between regions may entail considerable expense.

Over time we may shift additional portions of our manufacturing operations to the PRC 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.

Our earnings would be reduced if our goodwill or intangible assets recorded as part of the Drake Acquisition were to become impaired.

We recorded goodwill and identifiable intangible assets as part of the Drake Acquisition in February 2012. Goodwill is generated when the cost of an acquisition exceeds the fair value of the net tangible and identifiable intangible assets acquired. We also have certain intangible assets with indefinite lives. We assess the impairment of goodwill and indefinite lived intangible assets annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment of acquired product rights and other finite lived intangible assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If our goodwill or intangible assets recorded in connection with the Drake Acquisition were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized. Any potential charges for impairment related to goodwill or intangible assets would not impact cash flow, tangible capital or liquidity.

We may face risks relating to currency fluctuations and currency exchange.

Historically the Company has had limited exposure to currency fluctuations since transactions with customers located outside the United States have generally been denominated in U.S. Dollars. The Company incurs certain expenses which are denominated in Canadian Dollars in connection with its sales and product distribution in Canada. In addition, the Company incurs certain expenses denominated in Renminbi (“**RMB**”) in connection with its contract manufacturing activities in the PRC. The Company's functional currency is the U.S. Dollar. Accordingly, any expense denominated in Canadian Dollars or RMB needs to be translated into U.S. Dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Exchange rates between the Canadian Dollar and the U.S. Dollar and the RMB and U.S. Dollar in recent years have fluctuated significantly and may do so in the future. We do not engage in currency hedging activities to limit the risks of currency fluctuations. Currency fluctuations could adversely impact our results of operations, cash flows and financial position.

Competitors may develop products that are similar to, and compete with, our products due to our limited proprietary protection.

We possess limited patent or registered intellectual property rights with respect to our technology. We rely on a combination of contractual rights and trade secret laws to protect our proprietary technology and know-how. There can be no assurance that we will be able to protect our technology and know-how or that third parties will not be able to develop similar technology independently. Therefore, existing and potential competitors may be able to develop similar products which compete with our products. Such competition could adversely affect the prices for our products or our market share and could have a material adverse effect upon our results of operations and financial condition.

Patent infringement claims against us or our customers, whether or not successful, may cause us to incur significant costs.

While we do not believe that our products (including products and technologies licensed from others) infringe valid intellectual property rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted against us or our customers. Damages for infringement of valid intellectual property rights of third parties could be substantial, and if determined to be willful, can be trebled. Such an outcome could have a material adverse effect on the Company's financial condition and results of operation. Regardless of the validity or the successful assertion of any such claims, we could incur significant costs and diversion of resources with respect to the defense thereof which could have a material adverse effect on our financial condition and results of operations. If we are unsuccessful in defending any claims or actions that are asserted against us or our customers, we could seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that under such circumstances, a license would be available under reasonable terms or at all. The failure to obtain a license to a third party's intellectual property rights on commercially reasonable terms could have a material adverse effect on our results of operations and financial condition.

Any increase in governmental regulation of the markets that we serve, including the cable television system, MDU, lodging and institutional markets, may have an adverse effect on our results of operations and financial condition.

The cable television, MDU, lodging and institutional markets within the cable industry, which represents the vast majority of our business, while in some cases subject to certain FCC licensing requirements, is not presently burdened with extensive government regulations. It is possible, however, that regulations could be adopted in the future which impose burdensome restrictions on these markets resulting in, among other things, barriers to the entry of new competitors or limitations on capital expenditures. Any such regulations, if adopted, could have a material adverse effect on our results of operations and financial condition.

Private cable system operation is not presently burdened with significant government regulation, other than, in some cases, certain FCC licensing and signal leakage requirements. 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. It is possible, however, that regulations could be adopted which would re-impose burdensome restrictions on franchise cable operators resulting in, among other things, the grant of exclusive rights or franchises within certain geographical areas. Any increased regulation of franchise cable could have a material adverse effect on our results of operations and financial condition.

Any increase in governmental environmental regulations or our inability or failure to comply with existing environmental regulations may cause an adverse effect on our results of operations or financial condition.

We are 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 our manufacturing processes. We do not anticipate material capital expenditures during 2018 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 us. Further, such regulations could restrict our ability to expand our operations. Any failure by us to obtain required permits for, control the use of, or adequately restrict the discharge of, hazardous substances under present or future regulations could subject us to substantial liability or could cause our manufacturing operations to be suspended. Such liability or suspension of manufacturing operations could have a material adverse effect on our results of operations and financial condition.

Losing the services of our executive officers or our other highly qualified and experienced employees, or our inability to continue to attract and retain highly qualified and experienced employees, could adversely affect our business.

Our future success depends in large part on the continued service of our key executives and technical and management personnel. Our future success also depends on our ability to continue to attract and retain highly skilled engineering, manufacturing, marketing and managerial personnel. The competition for such personnel is intense, and the loss of key employees, in particular the principal members of our management and technical staff, could have a material adverse effect on our results of operations and financial condition.

Our organizational documents and Delaware state law contain provisions that could discourage or prevent a potential takeover or change in control of our company or prevent our stockholders from receiving a premium for their shares of our Common Stock.

Our board of directors has the authority to issue up to 5,000,000 shares of undesignated Preferred Stock, to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any unissued series of undesignated Preferred Stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. The Preferred Stock could be issued with voting, liquidation, dividend and other rights superior to the rights of the Common Stock. Furthermore, such Preferred Stock may have other rights, including economic rights, senior to the Common Stock, and as a result, the issuance of such stock could have a material adverse effect on the market value of the Common Stock. In addition, our Restated Certificate of Incorporation:

eliminates the right of our stockholders to act without a meeting;

does not provide cumulative voting for the election of directors;

does not provide our stockholders with the right to call special meetings;

provides for a classified board of directors; and

imposes various procedural requirements which could make it difficult for our stockholders to effect certain corporate actions.

These provisions and the Board's ability to issue Preferred Stock may have the effect of deterring hostile takeovers or offers from third parties to acquire the Company, preventing our stockholders from receiving a premium for their shares of our Common Stock, or delaying or preventing changes in control or management of the Company. We are also afforded the protection of Section 203 of the Delaware General Corporation Law, which could:

delay or prevent a change in control of the Company;

impede a merger, consolidation or other business combination involving us; or

discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company.

Any of these provisions which may have the effect of delaying or preventing a change in control of the Company, could have a material adverse effect on the market value of our Common Stock.

It is unlikely that we will pay dividends on our Common Stock.

We currently intend to retain all earnings to finance the growth of our business and therefore do not intend to pay dividends on our Common Stock in the foreseeable future. Moreover, the Sterling Agreement prohibits the payment of cash dividends by us on our Common Stock.

Our Common Stock is thinly traded and subject to volatility, which may adversely affect the market price for our Common Stock.

Although our Common Stock is traded on the NYSE American, it may remain relatively illiquid, or “thinly traded,” which can increase share price volatility and make it difficult for investors to buy or sell shares in the public market without materially affecting the quoted share price. Investors may be unable to buy or sell a certain quantity of our shares in the public market within one or more trading days. If limited trading in our stock continues, it may be difficult for holders to sell their shares in the public market at any given time at prevailing prices.

The prevailing market price of our Common Stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including the following:

announcements of technological innovations or new products by us, our competitors or third parties;

quarterly variations in our actual or anticipated results of operations;

failure of revenues or earnings in any quarter to meet the investment community’s expectations;

market conditions for cable industry stocks in general;

broader market trends unrelated to our performance; and

sales of significant amounts of our Common Stock by our officers and directors or the perception that such shares may occur.

The uncertainties we face relating to our liquidity and ability to generate sufficient cash flows from operations and to continue to operate our business as a going concern also contributes to the volatility of our stock price, and any investment in our common stock could suffer a significant decline or total loss in value. Furthermore, we may not be able to maintain compliance with the continued listing standards of the NYSE American LLC or any other national securities exchange or over-the-counter market on which our common stock is then traded, which may also adversely affect the trading price of our common stock.

Our share ownership is highly concentrated.

Our directors and officers beneficially own, or have the right to vote, approximately 45% of our Common Stock and will continue to have significant influence over the outcome of all matters submitted to the stockholders for approval, including the election of our directors.

Delays or difficulties in negotiating a labor agreement or other difficulties in our relationship with our union employees may cause an adverse effect on our manufacturing and business operations.

All of our direct labor employees located at the Old Bridge, New Jersey facility are members of the International Brotherhood of Electrical Workers Union, Local 2066 (the “**Union**”), under a collective bargaining agreement, which expires in February 2019. In connection with any renewal or renegotiation of the labor agreement upon its termination, there can be no assurance that work stoppages will not occur or that we will be able to agree upon terms for future agreements with the Union. Any work stoppages could have a material adverse effect on our business operations, results of operations and financial condition.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated. Our systems are designed to detect security incidents and to prevent their recurrence, but, in some cases, we might be unaware of an incident or its magnitude and effects. While we have not identified any material incidents of unauthorized access to date, the theft, unauthorized use or publication of our intellectual property, confidential business or personal information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives, damage our reputation or otherwise adversely affect our business. In addition, to the extent that any future security breach results in inappropriate disclosure of our employees’, licensees’, or customers’ confidential and /or personal information, we may incur liability or additional costs to remedy any damages caused by such breach. We could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection.

Recently enacted tax reform legislation in the U.S. could adversely affect our business and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“**Tax Act**”) was signed into law, making significant changes to the Internal Revenue Code. Changes under the Tax Act include, but are not limited to, a corporate tax rate

decrease from 35% to 21% effective for tax years beginning after December 31, 2017, a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits (including reducing the business tax credit for certain clinical testing expenses incurred in the testing of orphan drugs). The overall impact of the Tax Act is uncertain, and our business and financial condition could be adversely affected. For example, because of the tax rate decrease, our deferred tax assets and our corresponding valuation allowance against these deferred tax assets have been reduced and may continue to be adversely impacted. In addition, it is uncertain if and to what extent various states will conform to the Tax Act and what effect legal challenges will have on the Tax Act, including litigation in the U.S. and international challenges brought at organizations such as the World Trade Organization. The impact of the Tax Act on holders of our common stock is also uncertain and could be adverse. Investors should consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable to smaller reporting companies.

ITEM 2. PROPERTIES

The Company's principal manufacturing, engineering, sales and administrative facilities consist of one building totaling approximately 130,000 square feet located on approximately 20 acres of land in Old Bridge, New Jersey (the "**Old Bridge Facility**") which currently is owned by the Company. As discussed in further detail below, the Company has entered into an agreement to sell the Old Bridge Facility and lease back a substantial portion of the premises. The Old Bridge Facility is currently encumbered by a mortgage held by Sterling National Bank, securing the obligations of the Company to Sterling under the Sterling Agreement, which includes the principal amount of \$3,286,000 under the term loan portion of the Sterling Agreement as of December 31, 2017, and by a mortgage held by the Subordinated Lenders (defined in Item 7 below) securing the Subordinated Loan Facility (defined in Item 7 below) in the principal amount of up to \$750,000, of which \$500,000 (plus accrued unpaid interest) is outstanding as of December 31, 2017. The Company expects that the mortgages will be released in connection with the Company's repayments of amounts due under the Sterling Agreement and the Subordinated Loan Facility, which repayments are expected to occur upon the closing of the sale of the Old Bridge Facility. In addition, the Company leases an engineering and sales facility consisting of one building totaling approximately 7,500 square feet in Springboro, Ohio. The lease for this facility expires in October, 2021. The total lease obligation for the Springboro, Ohio facility will be approximately \$48,000 during 2018. Further, the Company leases an engineering facility consisting of one building totaling approximately 2,400 square feet in Fort Wayne, Indiana. The lease for this facility expires in May, 2020. The total lease obligation for the Fort Wayne, Indiana facility will be approximately \$38,000 during 2018. Management believes that these facilities are adequate to support the Company's anticipated needs in 2018.

As previously announced, the Company has entered into an Agreement of Sale (the "**Sale Agreement**") with Mountainblue Jake Brown Realty LLC ("**Mountainblue**"), providing for the sale of the Old Bridge Facility to Mountainblue. In connection with the transaction, Mountainblue has agreed to pay the Company \$10,300,000 at closing, subject to certain adjustments as provided in the Sale Agreement. Mountainblue has deposited \$525,000 in escrow as a deposit towards the full purchase price. Completion of the transactions contemplated by the Sale Agreement is subject to a number of closing conditions, including the Buyer's satisfactory completion of certain due diligence matters.

In addition, in connection with the closing of the sale of the Old Bridge Facility, the Company (as tenant) and Mountainblue (as landlord) will enter into a lease (the "**Lease**"), pursuant to which the Company will continue to occupy a portion of, and continue to conduct its manufacturing, engineering, sales and administrative functions in, the Old Bridge Facility. The Lease will have an initial term of five years and allows the Company to extend the term for an additional five years following the initial term. The Company is obligated to pay base rent of \$573,750 for the first year of the Lease, with the amount of the base rent adjusted for each subsequent year to equal 102.75% of the

preceding year's base rent.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's Common Stock has been traded on the NYSE American (formerly the NYSE MKT) since the Company's initial public offering on December 14, 1995. The following table sets forth for the quarters indicated, the high and low sale prices for the Company's Common Stock on the NYSE American:

Market Information

Year Ended December 31, 2017: High Low

First Quarter	\$.81	\$.49
Second Quarter	.90	.49
Third Quarter	1.29	.40
Fourth Quarter	1.09	.38

Year Ended December 31, 2016: High Low

First Quarter	\$.51	\$.28
Second Quarter	.50	.28
Third Quarter	1.10	.42
Fourth Quarter	.67	.41

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

Holder

As of March 15, 2018, the Company had 79 holders of record of the Common Stock. Since a portion of the Company's common stock is held in "street" or nominee name, the Company is unable to determine the exact number of beneficial holders.

Dividends

The Company currently anticipates that it will retain all of its earnings to finance the operation of its business, and therefore does not intend to pay dividends on its Common Stock in the foreseeable future. Since its initial public offering, the Company has never declared or paid any cash dividends on its Common Stock. Any determination to pay dividends in the future is at the discretion of the Company's Board of Directors and will depend