

US CONCRETE INC  
Form SC 13G  
February 09, 2005

OMB APPROVAL

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

**SCHEDULE 13G**

Under the Securities Exchange Act of 1934  
(Amendment No. )\*

U S CONCRETE INC

(Name of Issuer)

Common Stock

(Title of Class of Securities)

90333L102

(CUSIP Number)

December 31, 2004

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ( Act ) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 90333L102

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1. Names of Reporting Persons.  
I.R.S. Identification Nos. of above persons (entities only).  
Dimensional Fund Advisors Inc. (Tax ID: 22-2370029)

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2. Check the Appropriate Box if a Member of a Group (See Instructions)  
(a)  
(b)  X

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3. SEC Use Only

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4. Citizenship or Place of Organization  
Delaware Corporation

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	5. Sole Voting Power	1478153 **see Note 1**
Number of Shares Beneficially Owned by Each Reporting Person With	6. Shared Voting Power	0
	7. Sole Dispositive Power	1478153 **see Note 1**
	8. Shared Dispositive Power	0

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9. Aggregate Amount Beneficially Owned by Each Reporting Person  
1478153 \*\*see Note 1\*\*

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10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

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N/A

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11. Percent of Class Represented by Amount in Row (9)

5.09%

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12. Type of Reporting Person (See Instructions)

IA

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Item 1.

(a) Name of Issuer

U S CONCRETE INC

(b) Address of Issuer's Principal Executive Offices

2925 Briarpark Dr Ste 500, Houston, TX 77042-3728

Item 2.

(a) Name of Person Filing

Dimensional Fund Advisors Inc.

(b) Address of Principal Business Office or, if none, Residence

1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401

(c) Citizenship

Delaware Corporation

(d) Title of Class of Securities

Common Stock

(e) CUSIP Number

90333L102

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(a)  Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c)  Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d)  Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).

(e)  An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);

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- (f)  An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g)  A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h)  A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i)  A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j)  Group, in accordance with §240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned:

1478153 \*\*see Note 1\*\*

- (b) Percent of class:

5.09%

- (c) Number of shares as to which the person has:

- (i) Sole power to vote or to direct the vote:

1478153 \*\*see Note 1\*\*

- (ii) Shared power to vote or to direct the vote:

0

- (iii) Sole power to dispose or to direct the disposition of:

1478153 \*\*see Note 1\*\*

- (iv) Shared power to dispose or to direct the disposition of:

0

\*\* Note 1 \*\* Dimensional Fund Advisors Inc. ( Dimensional ), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities of the Issuer described in this schedule that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Issuer held by the Funds. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the filing of this Schedule 13G shall not be construed as an admission that the reporting person or any of its affiliates is the beneficial owner of any securities covered by this Schedule 13G for any other purposes than Section 13(d) of the Securities Exchange Act of 1934.

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following .

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

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All securities reported in this schedule are owned by advisory clients of Dimensional Fund Advisors Inc., no one of which, to the knowledge of Dimensional Fund Advisors, Inc., owns more than 5% of the class. Dimensional Fund Advisors Inc. disclaims beneficial ownership of all such securities.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

N/A

Item 8. Identification and Classification of Members of the Group

N/A

Item 9. Notice of Dissolution of Group

N/A

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

**SIGNATURE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DIMENSIONAL FUND ADVISORS INC.

February 9, 2005

Date

/s/ Catherine L. Newell

Signature

Vice President and Secretary

Title

d of the first interim period ending after March 15, 2004. The adoption of FIN 46 did not have a material impact on the Company's financial position, results of operations or cash flows.

In July 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity ("**SFAS 150**"). SFAS 150 requires the shares that are mandatorily redeemable for cash or other assets at a specified or determinable date or upon an event certain to occur to be classified as liabilities, not as part of shareholders' equity. This pronouncement does not currently impact the Company's financial position, results of operations or cash flows.

Emerging Issues Task Force ("**EITF**") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The EITF addresses the accounting for revenue generating arrangements involving multiple deliverables. This EITF does not currently apply to the Company.

**Note 3 □ Stock Options**

The Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plans. Statement of Financial Accounting Standards No. 123 ("**FAS 123**"), Accounting for Stock-Based Compensation, requires the Company to provide pro forma information regarding net income (loss) and net (loss) income per common share as if compensation cost for stock options granted under the plans, if applicable, had been determined in accordance with the fair value based method prescribed in FAS 123. The Company does not plan to adopt the fair value based method prescribed by FAS 123.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands)**  
**(unaudited)**

The Company estimates the fair value of each stock option grant by using the Black-Scholes option-pricing model. During 2004, the following weighted average assumptions were used for grants: expected lives of 9.5 years, no divided yield, volatility of 76% and risk free interest rate of 3.2%. No options were granted during the six months ended June 30, 2003.

Under accounting provisions of FAS 123, the Company's net loss to common shareholders and net loss per common share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share data):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net income (loss) as reported	\$ 236	\$ (390)	\$ (161)	\$ (1,148)
Adjustment for fair value of stock options, net of tax	47	81	94	162
Pro forma	\$ 189	(\$471)	\$ (255)	(\$1,310)
Net income (loss) per share basic and diluted:				
As reported	\$ 0.03	\$ (0.05)	\$ (0.02)	\$ (0.15)
Pro forma	\$ 0.02	\$ (0.06)	\$ (0.03)	\$ (0.17)

**Note 4 □ Inventories**

Inventories net of reserves are summarized as follows:

	<b>June 30, 2004</b>	<b>Dec. 31, 2003</b>
Raw Materials	\$ 11,946	\$ 11,379
Work in process	1,199	1,746
Finished Goods	10,508	10,935
	23,653	24,060
Less current inventory	(9,984)	(9,482)
	13,669	14,578
Less reserve for excess inventory	(3,772)	(3,472)
	\$ 9,897	\$ 11,106

The Company periodically analyzes anticipated product sales based on historical results, current backlog and marketing plans. Based on these analyses and a change in market factors in 2003, the Company determined that as of December 31, 2003 certain products would not be sold during the next twelve months. Inventories that are not anticipated to be sold in the twelve months, have been classified as non-current. Accordingly, \$11,106 has been reclassified from current assets to non-current and current deferred income tax assets of \$1,390 (related to the reserve for excess inventory) have also been reclassified to non-current as of December 31, 2003.

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Over 60% of the non-current inventories are composed of raw materials. The Company has established a program to use interchangeable parts in its various product offerings and to modify certain of its finished goods to better match customer demands. In addition the Company has instituted additional marketing programs to dispose of the slower moving inventories.

The Company continually analyzes its slow-moving, excess and obsolete inventories. Based on historical and projected sales volumes and anticipated selling prices, the Company establishes reserves. If the Company does not meet its sales expectations these reserves are increased. Products that are determined to be obsolete are written down to net realizable value. The Company believes reserves are adequate and inventories are reflected at net realizable value.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands)**  
**(unaudited)**

**Note 5 □ Debt**

On March 20, 2002, the Company entered into a credit agreement with Commerce Bank, N.A. for a credit facility, originally comprised of (i) a \$7,000 revolving line of credit under which funds may be borrowed at LIBOR, plus a margin ranging from 1.75% to 2.50%, in each case depending on the calculation of certain financial covenants, with a floor of 5% through March 19, 2003, (ii) a \$9,000 term loan which bore interest at a rate of 6.75% through September 30, 2002, and thereafter at a fixed rate ranging from 6.50% to 7.25% to reset quarterly depending on the calculation of certain financial covenants and (iii) a \$3,500 mortgage loan bearing interest at 7.5%. Borrowings under the revolving line of credit are limited to certain percentages of eligible accounts receivable and inventory, as defined in the credit agreement. The credit facility is collateralized by a security interest in all of the Company's assets. The agreement also contains restrictions that require the Company to maintain certain financial ratios as well as restrictions on the payment of cash dividends. The initial maturity date of the line of credit with Commerce Bank was March 20, 2004. The term loan required equal monthly principal payments of \$187 and matures on April 1, 2006. The mortgage loan requires equal monthly principal payments of \$19 and matures on April 1, 2017. The mortgage loan is callable after five years at the lender's option.

In November 2003, the Company's credit agreement with Commerce Bank was amended to modify the interest rate and amortization schedule for certain of the loans thereunder, as well as to modify one of the financial covenants. Beginning November 1, 2003, the revolving line of credit began to accrue interest at the prime rate plus 1.5%, with a floor of 5.5% (5.5% at June 30, 2004), and the term loan began to accrue interest at a fixed rate of 7.5%. Beginning December 1, 2003, the term loan requires equal monthly principal payments of \$193 plus interest with a final payment on April 1, 2006 of all remaining unpaid principal and interest.

At March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003, the Company was unable to meet one of its financial covenants required under its credit agreement with Commerce Bank, which non-compliance was waived by the Bank effective as of each such date.

In March 2004, the Company's credit agreement with Commerce Bank was amended to (i) extend the maturity date of the line of credit until April 1, 2005, (ii) reduce the maximum amount that may be borrowed under the line of credit to \$6,000, (iii) suspend the applicability of the cash flow coverage ratio covenant until March 31, 2005, (iv) impose a new financial covenant requiring the Company to achieve certain levels of consolidated pre-tax income on a quarterly basis commencing with the fiscal quarter ended March 31, 2004, and (v) require that the Company make a prepayment against its outstanding term loan to the Bank equal to 100% of the amount of any prepayment received by the Company on its outstanding note receivable from a customer, up to a maximum amount of \$500. The full \$500 was paid during the six months ended June 30, 2004. At June 30, 2004, the Company was unable to meet one of its financial covenants which non-compliance was waived by the Bank effective as of that date.

At June 30, 2004, there was \$4,926, \$3,590 and \$2,975 outstanding under the revolving line of credit, term loan and mortgage loan, respectively.

**Note 6 □ Acquisition (Subscribers and passings in whole numbers)**

During June, 2002, the Company formed a venture with Priority Systems, LLC and Paradigm Capital Investments, LLC for the purpose of acquiring the rights-of-entry for certain multiple dwelling unit ("MDU") cable television systems (the "Systems") owned by affiliates of Verizon Communications, Inc. The venture entity, BDR Broadband, LLC ("BDR Broadband"), 90% of the outstanding capital stock of which is owned by the Company, acquired the Systems, which are comprised of approximately 3,070 existing MDU cable television subscribers and approximately 7,520 passings. BDR Broadband paid approximately \$1,880 for the Systems, subject to adjustment, which constitutes a purchase price of approximately \$.575 per subscriber. The final closing date for the transaction was on October 1, 2002. The Systems were cash flow positive beginning in the first year. To date, the Systems have been upgraded with approximately \$904 of interdigitation and other products of the Company. It is planned that the Systems will be upgraded with approximately \$500 of additional interdigitation and other products of the Company over the course of operation. During July 2003, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Paradigm Capital Investments, LLC, for an

aggregate purchase price of \$35, resulting in an increase in the Company's stake in BDR Broadband from 80% to 90%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands)**  
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The purchase price was allocated \$1,524 to rights-of-entry and \$391 to fixed assets. The rights-of-entry are being amortized over a five year period.

In consideration for its majority interest in BDR Broadband, the Company advanced to BDR Broadband \$250, which was paid to the sellers as a down payment against the final purchase price for the Systems. The Company also agreed to guaranty payment of the aggregate purchase price for the Systems by BDR Broadband. The approximately \$1,630 balance of the purchase price was paid by the Company on behalf of BDR Broadband on November 30, 2002 pursuant to the terms and in satisfaction of certain promissory notes executed by BDR Broadband in favor of the sellers.

In March, 2003, the Company entered into a series of agreements, pursuant to which the Company acquired a 20% minority interest in NetLinc Communications, LLC ("NetLinc") and a 35% minority interest in Blonder Tongue Telephone, LLC ("BTT") (to which the Company has licensed its name). The aggregate purchase price consisted of (i) up to \$3,500 payable over a minimum of two years, plus (ii) 500 shares of the Company's common stock. NetLinc owns patents, proprietary technology and know-how for certain telephony products that allow Competitive Local Exchange Carriers ("CLECs") to competitively provide voice service to MDUs. Certain distributorship agreements were also concurrently entered into among NetLinc, BTT and the Company pursuant to which the Company ultimately acquired the right to distribute NetLinc's telephony products to private and franchise cable operators as well as to all buyers for use in MDU applications. BTT partners with CLECs to offer primary voice service to MDUs, receiving a portion of the line charges due from the CLECs' telephone customers, and the Company offers for sale a line of telephony equipment to complement the voice service.

As a result of NetLinc's inability to retain a contract manufacturer to manufacture and supply the products in a timely and consistent manner in accordance with the requisite specifications, in September, 2003 the parties agreed to restructure the terms of their business arrangement entered into in March, 2003. The restructured business arrangement was accomplished by amending certain of the agreements previously entered into and entering into certain new agreements. Some of the principal terms of the restructured arrangement include increasing the Company's economic ownership in NetLinc from 20% to 50% and in BTT from 35% to 50%, all at no additional cost to the Company. The cash portion of the purchase price in the venture was decreased from \$3,500 to \$1,167 and the then outstanding balance of \$342 was paid in installments of \$50 per week until it was paid in full in October, 2003. BTT has an obligation to redeem the \$1,167 cash component of the purchase price to the Company via preferential distributions of cash flow under BTT's limited liability company operating agreement. In addition, of the 500 shares of common stock issued to BTT as the non-cash component of the purchase price (fair valued at \$1,030), one-half (250 shares) have been pledged to the Company as collateral. Under the restructured arrangement, the Company can purchase similar telephony products directly from third party suppliers other than NetLinc and, in connection therewith, the Company pays certain future royalties to NetLinc and BTT from the sale of these products by the Company. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not anticipate purchasing products from NetLinc in the near term. NetLinc, however, continues to own intellectual property, which may be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements. The Company accounts for its investments in NetLinc and BTT using the equity method.

**Note 7 □ Notes Receivable**

During September 2002, the Company sold inventory at a cost of approximately \$1,447 to a private cable operator for approximately \$1,929 in exchange for which the Company received notes receivable in the principal amount of approximately \$1,929. The notes are payable by the customer in 48 monthly principal and interest (at 11.5%) installments of approximately \$51 commencing January 1, 2003. The customer's payment obligations under the notes are collateralized by purchase money liens on the inventory sold and blanket second liens on all other assets of the customer. The Company recorded the notes receivable at the inventory cost and will not recognize any revenue or gross profit on the transaction until a substantial amount of the cost has been recovered, and collectibility is assured. The Company collected \$1,154 during the first six months of 2004 and recorded \$832 as a reduction in the note receivable balance, \$186 of gross margin and \$136 of interest income. The balance of the notes are expected to be collected during 2004 and a total of approximately \$482 of gross margin and \$356 of interest income is expected to be recognized.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands)**  
**(unaudited)**

**Note 8 □ Related Party Transactions**

The President of the Company lent the Company 100% of the purchase price of certain used-equipment inventory purchased by the Company in October through November of 2003. The inventory was purchased at a substantial discount to market price. While the aggregate cost to purchase all of the inventory was approximately \$950, the maximum amount of indebtedness outstanding to the President at any one time during the 2004 was \$675. The President made the loan to the Company on a non-recourse basis, secured solely by a security interest in the inventory purchased by the Company and the proceeds resulting from the sale of the inventory. In consideration for the extension of credit on a non-recourse basis, the President received from the Company interest on the outstanding balance at the margin interest rate he incurred for borrowing the funds from his lenders and is entitled to receive from the Company 25% of the gross profit derived from the Company's resale of such inventory, which amounts will not be paid to the President until the outstanding balance of the indebtedness has been paid in full and a final accounting of the transaction has been concluded. In April 2004, the President of the Company acquired \$75 of used equipment inventory, which was subsequently sold by him to the Company on a consignment basis. Payment by the Company for the goods become due upon the sale thereof by the Company and collection of the accounts receivable generated by such sales. In connection with the transaction, the Company agreed to pay the President cost plus 25% of the gross profit derived from the sale of such inventory. At June 30, 2004, the aggregate remaining outstanding balance due to the President from the foregoing transactions was approximately \$117 and was included in other accrued expenses.

In March, 2003, the Company entered into a series of agreements, pursuant to which the Company acquired a 20% minority interest in NetLinc Communications, LLC ("**NetLinc**") and a 35% minority interest in Blonder Tongue Telephone, LLC ("**BTT**"). During September, 2003, the parties restructured the terms of their business arrangement which included increasing Blonder Tongue's economic ownership in NetLinc from 20% to 50% and in BTT from 35% to 50%, all at no additional cost to Blonder Tongue. The cash portion of the purchase price in the venture was decreased from \$3,500 to \$1,167, and was paid in full by the Company to BTT in October, 2003. As the non-cash component of the purchase price, the Company issued 500 shares of Common Stock to BTT, resulting in BTT becoming the owner of greater than 5% of the outstanding Common Stock of the Company. The Company will receive preferential distributions equal to the \$1,167 cash component of the purchase price from the cash flows of BTT. One-half of such Common Stock (250 shares) has been pledged to the Company as collateral to secure BTT's obligation. Under the restructured arrangement, the Company pays certain future royalties to NetLinc and BTT upon the sale of telephony products. During 2004, the total accrued royalties to NetLinc and BTT were \$20 and \$58, respectively, which will be paid to them by the Company in 2004. Through this telephony venture, BTT offers primary voice service to MDUs and the Company offers for sale a line of telephony equipment to complement the voice service.

**Note 9 □ Restatement**

The Company's restatement arises from a determination that a vendor's account payable balance was incorrectly recorded in 2001 and 2002. Certain amounts due to this vendor related to inventories received that were not correctly recorded, and resulted in accounts payable being understated. These incorrect amounts also resulted in the understatement of cost of goods sold in 2001 and 2002, the overstatement of net income in 2001, the understatement of net loss in 2002 and 2003 and the overstatement of retained earnings in the quarter ended June 30, 2004. The effect of these entries, net of taxes, on the financial statements of the Company is summarized below.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands)**  
**(unaudited)**

The following table sets forth selected line items from the Company's consolidated balance sheet at June 30, 2004 and December 31, 2003 that are affected by the restatement on a restated basis and as previously reported:

	<b>(In Thousands)</b>			
	<b>At June 30, 2004</b>		<b>At December 31, 2003</b>	
	<b>As restated</b>	<b>As reported</b>	<b>As restated</b>	<b>As reported</b>
Accounts Payable	1,865	810	2,731	1,676
Retained earnings	12,026	13,081	12,187	13,242

In addition, see Note 4 regarding inventory reclassification.

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

### Forward-Looking Statements

In addition to historical information, this Quarterly Report contains forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operation, performance, development and results of the Company's business include, but are not limited to, those matters discussed herein in the section entitled Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations. The words "believe", "expect", "anticipate", "project" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including without limitation, the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003 (See Item 1 Business; Item 3 Legal Proceedings; and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations).

### General

During June, 2002, the Company formed a venture with Priority Systems, LLC and Paradigm Capital Investments, LLC for the purpose of acquiring the rights-of-entry for certain multiple dwelling unit cable television systems (the "**Systems**") owned by affiliates of Verizon Communications, Inc. The venture entity, BDR Broadband, 90% of the outstanding capital stock of which is owned by the Company, acquired the Systems, which are comprised of approximately 3,070 existing MDU cable television subscribers and approximately 7,520 passings. BDR Broadband paid approximately \$1,880,000 for the Systems, subject to adjustment, which constitutes a purchase price of \$575 per subscriber. The final closing date for the transaction was on October 1, 2002. The Systems were cash flow positive beginning in the first year. To date, the Systems have been upgraded with approximately \$890,000 of interdigitation and other products of the Company. It is planned that the Systems will be upgraded with approximately \$500,000 of additional interdigitation and other products of the Company over the course of operation. During July, 2003, the Company purchased the 10% interest in BDR Broadband that had been originally owned by Paradigm Capital Investments, LLC, for an aggregate purchase price of \$35,000, resulting in an increase in the Company's stake in BDR Broadband from 80% to 90%.

In consideration for its majority interest in BDR Broadband, the Company advanced to BDR Broadband \$250,000, which was paid to the sellers as a down payment against the final purchase price for the Systems. The Company also agreed to guaranty payment of the aggregate purchase price for the Systems by BDR Broadband. The approximately \$1,630,000 balance of the purchase price was paid by the Company on behalf of BDR Broadband on November 30, 2002, pursuant to the terms and in satisfaction of certain promissory notes (the "**Seller Notes**") executed by BDR Broadband in favor of the sellers.

The Company believes that similar opportunities currently exist to acquire additional rights-of-entry for multiple dwelling unit cable television systems at historically low prices. The Company also believes that the model it devised for acquiring and operating the Systems will be successful and can be replicated for other transactions with the same or new venture partners. While the Company is not actively seeking opportunities to acquire additional rights-of-entry at the present time, if such opportunities arise, the Company would evaluate and consider them. Given that financing may not be available on acceptable terms or at all, even if attractive opportunities arise, the Company may be unable to pursue these opportunities.

In March, 2003, the Company entered into a series of agreements, pursuant to which the Company acquired a 20% minority interest in NetLinc Communications, LLC ("**NetLinc**") and a 35% minority interest in Blonder Tongue Telephone, LLC ("**BTT**") (to which the Company has licensed its name). The aggregate purchase price consisted of (i) up to \$3,500,000 payable over a minimum of two years, plus (ii) 500,000 shares of the Company's common stock. NetLinc owns patents, proprietary technology and know-how for certain telephony products that allow Competitive Local Exchange Carriers ("**CLECs**") to competitively provide voice service to MDUs. Certain

distributorship agreements were also concurrently entered into among NetLinc, BTT and the Company pursuant to which the Company ultimately acquired the right to distribute NetLinc's telephony products to private and franchise cable operators as well as to all buyers for use in MDU applications. BTT partners with CLECs to offer primary voice service to MDUs, receiving a portion of the line charges due from the CLECs' telephone customers, and the Company offers for sale a line of telephony equipment to complement the voice service.



As a result of NetLinc's inability to retain a contract manufacturer to manufacture and supply the products in a timely and consistent manner in accordance with the requisite specifications, in September, 2003 the parties agreed to restructure the terms of their business arrangement entered into in March, 2003. The restructured business arrangement was accomplished by amending certain of the agreements previously entered into and entering into certain new agreements. Some of the principal terms of the restructured arrangement include increasing the Company's economic ownership in NetLinc from 20% to 50% and in BTT from 35% to 50%, all at no additional cost to the Company. The cash portion of the purchase price in the venture was decreased from \$3,500,000 to \$1,166,667 and the then outstanding balance of \$342,000 was paid in installments of \$50,000 per week until it was paid in full in October, 2003. In addition, of the 500,000 shares of common stock issued to BTT as the non-cash component of the purchase price (fair valued at \$1,030,000), one-half (250,000 shares) have been pledged to the Company as collateral to secure BTT's obligation to repay the \$1,167,667 cash component of the purchase price to the Company via preferential distributions of cash flow under BTT's limited liability company operating agreement. Under the restructured arrangement, the Company can purchase similar telephony products directly from third party suppliers other than NetLinc and, in connection therewith, the Company pays certain future royalties to NetLinc and BTT from the sale of these products by the Company. While the distributorship agreements among NetLinc, BTT and the Company have not been terminated, the Company does not anticipate purchasing products from NetLinc in the near term. NetLinc, however, continues to own intellectual property, which may be further developed and used in the future to manufacture and sell telephony products under the distributorship agreements.

In addition to receiving incremental revenues associated with its direct sales of the telephony products, the Company also anticipates receiving a portion of BTT's net income derived from voice-service revenues through its 50% stake in BTT. While the events related to the restructuring resulted in a delay in the Company's anticipated revenue stream from the sale of telephony products, the Company believes that these revised terms are beneficial and will result in the Company enjoying higher gross margins on telephony equipment unit sales as well as an incrementally higher proportion of telephony service revenues. Material incremental revenues associated with the sale of telephony products are not presently anticipated to be received until at least the third quarter of 2004.

During September 2002, the Company sold inventory at a cost of approximately \$1,447,000 to a private cable operator for approximately \$1,929,000 in exchange for which the Company received notes receivable in the principal amount of approximately \$1,929,000. The notes are payable by the customer in 48 monthly principal and interest (at 11.5%) installments of approximately \$51,000 commencing January 1, 2003. The customer's payment obligations under the notes are collateralized by purchase money liens on the inventory sold and blanket second liens on all other assets of the customer. The Company recorded the notes receivable at the inventory cost and will not recognize any revenue or gross profit on the transaction until a substantial amount of the cost has been recovered, and collectibility is assured. The Company collected \$1,154,000 during the first six months of 2004 and recorded \$832,000 as a reduction in the note receivable balance, \$186,000 of gross margin and \$136,000 of interest income. The balance of the notes are expected to be collected during 2004 and a total of approximately \$482,000 of gross margin and \$356,000 of interest income is expected to be recognized.

*Second three months of 2004 Compared with second three months of 2003.*

*Net Sales.* Net sales increased \$2,383,000, or 27.9%, to \$10,917,000 in the second three months of 2004 from \$8,534,000 in the second three months of 2003. The increase in sales is primarily attributed to an increase in capital spending by cable system operators and improved overall economic conditions and the recognition of \$745,000 of sales due to the note receivable described above. As a result, the Company experienced higher digital product sales. Net sales included approximately \$361,000 and \$793,000 of interdigitation and digital equipment for the second three months of 2004 compared to approximately \$1,122,000 and \$218,000 for the second three months of 2003. Included in net sales are revenues from BDR Broadband of \$393,000 and \$239,000 for the second three months of 2004 and 2003, respectively.

*Cost of Goods Sold.* Cost of goods sold increased to \$7,837,000 for the second three months of 2004 from \$5,859,000 for the second three months of 2003 and increased as a percentage of sales to 71.8% from 68.7%. The increase as a percentage of sales was caused primarily by an increase in the reserve for the excess inventory of \$300,000 during the second three months of 2004.

*Selling Expenses.* Selling expenses increased to \$1,093,000 for the second three months of 2004 from \$953,000 in the second three months of 2003 but decreased as a percentage of sales to 10.0% for the second three months of 2004 from 11.2% for the second three months of 2003. The \$140,000 increase was primarily due to an increase in salaries and fringe benefits of \$118,000 due to an increase in headcount.

*General and Administrative Expenses.* General and administrative expenses decreased to \$1,349,000 for the second three months of 2004 from \$1,607,000 for the second three months of 2003 and decreased as a percentage of sales to 12.4% for the second three months of 2004 from 18.8% for the second three months of 2003. The \$258,000 decrease can be primarily attributed to a decrease in the allowance for bad debts of \$295,000 due to improved collection efforts.

*Research and Development Expenses.* Research and development expenses decreased to \$391,000 in the second three months of 2004 from \$468,000 in the second three months of 2003, primarily due to a decrease in salaries and fringe benefits of \$49,000 due to a headcount reduction and a decrease in consulting fees of \$26,000. Research and development expenses, as a percentage of sales, decreased to 3.6% in the second three months of 2004 from 5.5% in the second three months of 2003.

*Operating Income (Loss).* Operating income of \$247,000 for the second three months of 2004 represents an increase from a loss of \$353,000 for the second three months of 2003. Operating income as a percentage of sales increased to 2.3% in the second three months of 2004 from (4.1)% in the second three months of 2003.

*Other Expense.* Interest expense decreased to \$223,000 in the second three months of 2004 from \$282,000 in the second three months of 2003. The decrease is the result of lower average borrowing. Other income increased \$212,000 in the second three months of 2004 compared to zero in the second three months of 2003 primarily due to the recognition of \$136,000 of interest income on the note receivable described above.

*Income Taxes.* The provision for income taxes for the second three months of 2004 was zero compared to a benefit of \$245,000 for the second three months of 2003. As a result of the Company's continuing losses, a 100% valuation allowance has been recorded on the 2004 increase in the deferred tax benefit.

#### *First six months of 2004 Compared with first six months of 2003*

*Net Sales.* Net sales increased \$2,310,000, or 13.5%, to \$19,446,000 in the first six months of 2004 from \$17,136,000 in the first six months of 2003. The increase in sales is primarily attributed to an increase in capital spending by cable system operators, improved overall economic conditions and the recognition of \$745,000 of sales due to the note receivable described above. As a result, the Company experienced higher digital product sales. Net sales included approximately \$1,038,000 and \$1,983,000 of interdigital and digital equipment for the first six months of 2004 compared to approximately \$1,897,000 and \$1,554,000 for the first six months of 2003. Included in net sales are revenues from BDR Broadband of \$739,000 and \$441,000 for the first six months of 2004 and 2003, respectively.

*Cost of Goods Sold.* Cost of goods sold increased to \$13,425,000 for the first six months of 2004 from \$12,302,000 for the first six months of 2003, primarily due to increased volume, and decreased as a percentage of sales to 69.0% from 71.8%. The decrease as a percentage of sales was caused primarily by a higher portion of sales during the period being comprised of higher margin products.

*Selling Expenses.* Selling expenses increased to \$2,138,000 for the first six months of 2004 from \$1,951,000 in the first six months of 2003, but decreased as a percentage of sales to 11.0% for the first six months of 2004 from 11.4% for the first six months of 2003. This \$187,000 increase is primarily attributable to an increase in wages and fringe benefits of \$182,000 due to an increase in headcount.

*General and Administrative Expenses.* General and administrative expenses decreased to \$2,956,000 for the first six months of 2004 from \$3,171,000 for the first six months of 2003 and decreased as a percentage of sales to 15.2% for the first six months of 2004 from 18.5% for the first six months of 2003. The \$215,000 decrease can be primarily attributed to a decrease in the allowance for bad debts of \$295,000 as a result of improved collection efforts.

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*Research and Development Expenses.* Research and development expenses decreased to \$802,000 in the first six months of 2004 from \$1,016,000 in the first six months of 2003. This \$214,000 decrease was primarily due to a decrease in wages and fringe benefits of \$151,000 due to a reduction in headcount. Research and development expenses, as a percentage of sales, decreased to 4.1% in the first six months of 2004 from 5.9% in the first six months of 2003.

*Operating Income.* Operating income was \$125,000 for the first six months of 2004 compared to a loss of \$1,304,000 for the first six months of 2003.

*Other Expense.* Interest expense decreased to \$498,000 in the first six months of 2004 from \$555,000 in the first six months of 2003. The decrease is the result of lower average borrowing. Other income increased to \$212,000 in the first six months of 2004 compared to zero for the first six months of 2003 primarily due to the recognition of \$136,000 of interest income on the note receivable described above.

*Income Taxes.* The benefit for income taxes for the first six months of 2004 was zero compared to a benefit of \$711,000 for the first six months of 2003 as a result of a decrease in taxable loss. The benefit for the current year loss has been subject to a valuation allowance of \$61,000 since the realization of the deferred tax benefit is not considered more likely than not.

### **Liquidity and Capital Resources**

As of June 30, 2004 and December 31, 2003, the Company's working capital was \$8,226,000 and \$11,591,000, respectively. The decrease in working capital is attributable primarily to an increase in the current portion of debt of \$4,440,000 due to the reclassification of the revolving line of credit to current.

The Company's net cash provided by operating activities for the six-month period ended June 30, 2004 was \$338,000, compared to net cash provided by operating activities for the six-month period ended June 30, 2003, which was \$2,081,000.

Cash provided by investing activities was \$699,000, which was primarily attributable to an \$826,000 collection of a note receivable offset by capital expenditures for new equipment and upgrades to the BDR Broadband Systems of \$127,000.

Cash used in financing activities was \$994,000 for the first six months of 2004 primarily comprised of \$7,674,000 of repayments of long term debt offset by \$6,660,000 of borrowings.

On March 20, 2002, the Company entered into a credit agreement with Commerce Bank, N.A. for a \$19,500,000 credit facility, comprised of (i) a \$7,000,000 revolving line of credit under which funds may be borrowed at LIBOR, plus a margin ranging from 1.75% to 2.50%, in each case depending on the calculation of certain financial covenants, with a floor of 5% through March 19, 2003, (ii) a \$9,000,000 term loan which bore interest at a rate of 6.75% through September 30, 2002, and thereafter at a fixed rate ranging from 6.50% to 7.25% to reset quarterly depending on the calculation of certain financial covenants and (iii) a \$3,500,000 mortgage loan bearing interest at 7.5%. Borrowings under the revolving line of credit are limited to certain percentages of eligible accounts receivable and inventory, as defined in the credit agreement. The credit facility is collateralized by a security interest in all of the Company's assets. The agreement also contains restrictions that require the Company to maintain certain financial ratios as well as restrictions on the payment of cash dividends. The initial maturity date of the line of credit with Commerce Bank was March 20, 2004. The term loan required equal monthly principal payments of \$187,000 and matures on April 1, 2006. The mortgage loan requires equal monthly principal payments of \$19,000 and matures on April 1, 2017. The mortgage loan is callable after five years at the lender's option.

In November 2003, the Company's credit agreement with Commerce Bank was amended to modify the interest rate and amortization schedule for certain of the loans thereunder, as well as to modify one of the financial covenants. Beginning November 1, 2003, the revolving line of credit began to accrue interest at the prime rate plus 1.5%, with a floor of 5.5% (5.5% at June 30, 2004), and the term loan began to accrue interest at a fixed rate of 7.5%. Beginning December 1, 2003, the term loan requires equal monthly principal payments of \$193,000 plus interest with a final payment on April 1, 2006 of all remaining unpaid principal and interest.



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At March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003, the Company was unable to meet one of its financial covenants required under its credit agreement with Commerce Bank, which non-compliance was waived by the Bank effective as of each such date.

In March 2004, the Company's credit agreement with Commerce Bank was amended to (i) extend the maturity date of the line of credit until April 1, 2005, (ii) reduce the maximum amount that may be borrowed under the line of credit to \$6,000,000, (iii) suspend the applicability of the cash flow coverage ratio covenant until March 31, 2005, (iv) impose a new financial covenant requiring the Company to achieve certain levels of consolidated pre-tax income on a quarterly basis commencing with the fiscal quarter ended March 31, 2004, and (v) require that the Company make a prepayment against its outstanding term loan to the Bank equal to 100% of the amount of any prepayment received by the Company on its outstanding note receivable from a customer, up to a maximum amount of \$500,000. The full \$500,000 was paid during the six months ended June 30, 2004. At June 30, 2004, the Company was unable to meet one of its financial covenants, which non-compliance was waived by the Bank effective as of that date.

At June 30, 2004, there was \$4,926,000, \$3,590,000 and \$2,975,000 outstanding under the revolving line of credit, term loan and mortgage loan, respectively.

The Company has from time to time experienced short-term cash requirement issues. In 2002, the Company paid approximately \$1,880,000 in connection with acquiring its majority interest in BDR Broadband and paying off the Seller Notes for BDR Broadband. In addition, during 2004, the Company will incur additional obligations related to royalties, if any, in connection with its \$1,167,000 cash investments in NetLinc and BTT. While the Company's existing lender agreed to allow the Company to fund both the BDR Broadband obligations and the NetLinc/BTT obligations using its line of credit, such lender did not agree to increase the maximum amount available under such line of credit. These expenditures, coupled with the March 2004 amendment to the Company's credit agreement with Commerce Bank described above, and certain near-term funding requirements relating to the purchase of a large quantity of high-speed data products, will reduce the Company's working capital. The Company is exploring various alternatives to enhance its working capital, including inventory-related pricing and product reengineering efforts, as well as restructuring its long-term debt with Commerce Bank or seeking alternative financing. During 2003, BDR Broadband had positive cash flow, which has continued in the first six months of 2004. As such, BDR Broadband is not presently anticipated to adversely impact the Company's working capital.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The market risk inherent in the Company's financial instruments and positions represents the potential loss arising from adverse changes in interest rates. At June 30, 2004 and 2003 the principal amount of the Company's aggregate outstanding variable rate indebtedness was \$4,926,000 and \$6,026,000, respectively. A hypothetical 100 basis point increase in interest rates would have had an annualized unfavorable impact of approximately \$49,000 and \$60,000, respectively, on the Company's earnings and cash flows based upon these quarter-end debt levels. At June 30, 2004, the Company did not have any derivative financial instruments.

### **ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of its principal executive officer and principal financial officer, the Company evaluated the design and operation of the Company's disclosure controls and procedures as of June 30, 2004. Based upon the evaluation, when the original Form 10-Q was filed, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information required to be included in the Company's periodic SEC reports. In October, 2004, subsequent to the original Form 10-Q filing, the Company identified an error in accounting for inventories received that were not correctly recorded. This error resulted in a vendor's account payable balance being understated and the related understatement of cost of goods sold. As a result, the Company concluded that its previously reported financial statements for each of the three years ended December 31, 2001, 2002 and 2003 should be restated to reflect the increase in accounts payable and related increase to cost of goods sold and deferred income taxes. The Company also concluded that the financial statements for the second quarter ended June 30, 2004 should be restated to reflect the increase in accounts payable and decrease in stockholders' equity. See Note 9 to the unaudited consolidated financial statements for a description of the restatement. In addition, in August, 2004 the Company determined that as of December 31, 2003 certain products would not be sold in the next twelve months. Accordingly, \$11,106,000 of inventories have been reclassified as non-current as of December 31, 2003. See Note 4 to the unaudited consolidated financial statements for a description of the inventory reclassification.



In connection with the completion of its review of the Company's restated consolidated financial statements for the quarter ended September 30, 2004, the Company's independent auditors, BDO Seidman, LLP ("**BDO**"), communicated to the Company's Audit Committee that the following matters involving the Company's internal controls and operations were considered to be "reportable conditions," as defined under standards established by the American Institute of Certified Public Accountants or AICPA:

- Lack of reconciliation of accounts payable balances to vendor accounts.
- Inadequate review of details of accounts payable
- Inadequate review of slow moving inventories.

Reportable conditions are matters coming to the attention of the independent auditors that in their judgment, relate to significant deficiencies in the design or operation of internal controls and could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In addition, BDO has advised the Company that they consider these matters, which are listed above, to be "material weaknesses" that may increase the possibility that a material misstatement in the Company's financial statements might not be prevented or detected by its employees in the normal course of performing their assigned functions.

To remediate these weaknesses, in August, 2004 the Company instituted procedures to review inventory quantities against sales projections and in November, 2004 the Company instituted procedures to reconcile accounts payable to vendor accounts and also modified certain accounts payable and inventory related policies and procedures, provided education regarding such policies and procedures to relevant staff members and has implemented enhanced monitoring of such policies and procedures and related accounting policies. In connection with restating the Company's financial statements as provided in this Form 10-Q/A, the Company, under the supervision and with the participation of its principal executive officer and principal financial officer, has concluded that, as a result of the foregoing modifications to certain policies and procedures, the Company believes the deficiencies have been remediated. The Company's principal executive officer and principal financial officer did not note any other deficiencies in the Company's disclosure controls and procedures during their evaluation. Other than the matters discussed above, the Company's principal executive officer and principal financial officer have determined that the Company's disclosure controls and procedures were effective as of June 30, 2004 in timely alerting them to material information required to be included in the Company's periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote; however, the Company's principal executive officer and principal financial officer have concluded that, other than as noted above, the Company's disclosure controls and procedures were effective at a reasonable assurance level. The Company continues to monitor the effectiveness of its disclosure controls and procedures on an ongoing basis.

In addition, the Company reviewed its internal control over financial reporting and there have been no changes during the Company's second fiscal quarter of 2004 in the Company's internal control over financial reporting, to the extent that elements of internal control over financial reporting are subsumed within disclosure controls and procedures, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II □ OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

The Company held its Annual Meeting of Stockholders (the "**Meeting**") on May 11, 2004. The Company solicited proxies in connection with the Meeting. At the record date of the Meeting (March 19, 2004) there were 8,002,406 shares of Common Stock outstanding and entitled to vote. The following were the matters voted upon at the Meeting:

1. Election of Directors. The following directors were elected at the Meeting: Robert B. Mayer and James F. Williams. The number of votes cast for and withheld from each director are as follows:

DIRECTORS	FOR	WITHHELD
Robert B. Mayer	7,310,936	0
James F. Williams	7,310,936	0

John E. Dwight, Robert E. Heaton, James A. Luksch, Robert J. Pallé, Jr., Gary P. Scharmatt and James H. Williams continued as directors after the Meeting.

2. Ratification of Auditors. The appointment of BDO Seidman, LLP as the Company's independent auditors for the year ending December 31, 2004 was ratified by the following vote of Common Stock:

FOR	AGAINST	ABSTAINED
7,347,130	14,215	2,646

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

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

(b) Reports on Form 8-K



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On May 13, 2004, the Company filed a Form 8-K relating to Item 12 of such Form. The information under Item 12 related to the Company's May 13, 2004 press release announcing its unaudited financial results for the first quarter ended March 31, 2004.

**SIGNATURES**

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

BLONDER TONGUE LABORATORIES, INC.

Date: November 22, 2004

By: */s/ James A. Luksch*

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James A. Luksch  
Chief Executive Officer

By: */s/ Eric Skolnik*

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

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**EXHIBIT INDEX**

<u>Exhibit #</u>	<u>Description</u>	<u>Location</u>
3.1	Restated Certificate of Incorporation of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.1 to S-1 Registration Statement No. 33-98070 originally filed October 12, 1995, as amended.
3.2	Restated Bylaws of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.2 to S-1 Registration Statement No. 33-98070 originally filed October 12, 1995, as amended.
31.1	Certification of James A. Luksch pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Eric Skolnik pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	Filed herewith.