

WIRELESS TELECOM GROUP INC

Form 10-Q

May 16, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 31, 2016**

**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**

1-11916

**WIRELESS TELECOM GROUP, INC.**

**(Exact name of registrant as specified in its charter)**

New Jersey 22-2582295  
**(State or Other Jurisdiction (I.R.S. Employer of Incorporation or Organization) (I.R.S. Employer Identification No.)**  
25 Eastmans Road 07054  
Parsippany, New Jersey  
**(Address of Principal Executive Offices) (Zip Code)**

(973) 386-9696

**(Registrant's Telephone Number, Including Area Code)**

Not Applicable

**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (see the definitions of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Number of shares of Common Stock outstanding as of May 5, 2016: 18,593,013



WIRELESS TELECOM GROUP, INC.

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1 -- Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2016 (unaudited) and 2015 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 (unaudited) and 2015 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Shareholders' Equity for the Three Months Ended March 31, 2016 (unaudited)</u>	6
<u>Notes to Interim Condensed Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2 -- Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3 -- Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4 -- Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1 -- Legal Proceedings</u>	25
<u>Item 1A -- Risk Factors</u>	25
<u>Item 2 -- Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3 -- Defaults Upon Senior Securities</u>	25
<u>Item 4 -- Mine Safety Disclosures</u>	25
<u>Item 5 -- Other Information</u>	25
<u>Item 6 -- Exhibits</u>	26
<u>Signatures</u>	27
<u>Exhibit Index</u>	28



**PART 1 – FINANCIAL INFORMATION****Item 1 – Financial Statements****WIRELESS TELECOM GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2016 (unaudited)	December 31, 2015
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$9,771,590	\$9,726,007
Accounts receivable - net of allowance for doubtful accounts of \$70,152 and \$105,568 for 2016 and 2015, respectively	4,495,425	5,451,161
Inventories - net of reserves of \$1,174,721 and \$1,110,288, respectively	8,799,876	8,068,728
Prepaid expenses and other current assets	490,186	586,889
<b>TOTAL CURRENT ASSETS</b>	<b>23,557,077</b>	<b>23,832,785</b>
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>1,743,408</b>	<b>1,742,888</b>
<b>OTHER ASSETS:</b>		
Goodwill	1,351,392	1,351,392
Deferred income taxes	7,399,857	7,013,929
Other assets	751,171	765,330
<b>TOTAL OTHER ASSETS</b>	<b>9,502,420</b>	<b>9,130,651</b>
<b>TOTAL ASSETS</b>	<b>\$34,802,905</b>	<b>\$34,706,324</b>
<b>- LIABILITIES AND SHAREHOLDERS' EQUITY -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$1,684,572	\$1,046,651
Accrued expenses and other current liabilities	641,375	648,010
Equipment leases payable	71,081	73,760
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,397,028</b>	<b>1,768,421</b>
<b>LONG TERM LIABILITIES:</b>		
Deferred rent	44,602	33,452
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value, 75,000,000 shares authorized, 29,627,891 shares issued, 18,593,013 and 18,636,008 shares outstanding, respectively	296,279	296,279
Additional paid-in-capital	39,963,950	39,865,331

Edgar Filing: WIRELESS TELECOM GROUP INC - Form 10-Q

Retained earnings	12,924,526	13,500,853
Treasury stock at cost, 11,034,878 and 10,991,883 shares, respectively	(20,823,480)	(20,758,012)
TOTAL SHAREHOLDERS' EQUITY	32,361,275	32,904,451
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$34,802,905	\$34,706,324

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

**WIRELESS TELECOM GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	For the Three Months Ended March 31,	
	2016	2015
NET SALES	\$6,368,415	\$8,627,691
COST OF SALES	3,648,301	4,764,044
GROSS PROFIT	2,720,114	3,863,647
OPERATING EXPENSES		
Research and development	1,064,321	916,436
Sales and marketing	1,251,176	1,345,405
General and administrative	1,325,268	1,263,081
TOTAL OPERATING EXPENSES	3,640,765	3,524,922
OPERATING INCOME (LOSS)	(920,651 )	338,725
OTHER EXPENSE (INCOME) - NET	41,604	(3,267 )
NET INCOME (LOSS) BEFORE INCOME TAXES	(962,255 )	341,992
PROVISION (BENEFIT) FOR INCOME TAXES	(385,928 )	148,139
NET INCOME (LOSS)	\$(576,327 )	\$193,853
INCOME (LOSS) PER COMMON SHARE:		
BASIC	\$(0.03 )	\$0.01
DILUTED	\$(0.03 )	\$0.01

The accompanying notes are an integral part of these condensed consolidated financial statements.



**WIRELESS TELECOM GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	For the Three Months Ended March 31,	
	2016	2015
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss)	\$(576,327 )	\$193,853
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115,858	109,184
Share-based compensation expense	98,619	85,963
Deferred rent	11,150	—
Deferred income taxes	(385,928 )	102,224
Provision for doubtful accounts	(35,416 )	9,168
Inventory reserves	64,433	—
Changes in assets and liabilities:		
Accounts receivable	991,152	(901,132 )
Inventories	(795,581 )	(212,320 )
Prepaid expenses and other assets	110,862	451,037
Accounts payable	637,921	577,619
Accrued expenses and other current liabilities	(9,129 )	(138,503 )
Net cash provided by operating activities	227,614	277,093
<b>CASH FLOWS (USED) BY INVESTING ACTIVITIES</b>		
Capital expenditures	(74,474 )	(246,836 )
<b>CASH FLOWS (USED) BY FINANCING ACTIVITIES</b>		
Repayments of equipment lease payable	(42,089 )	(48,499 )
Repurchase of common stock - 42,995 shares	(65,468 )	—
Net cash (used by) financing activities	(107,557 )	(48,499 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>45,583</b>	<b>(18,242 )</b>
Cash and cash equivalents, at beginning of period	9,726,007	10,723,513
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$9,771,590</b>	<b>\$10,705,271</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the period for income taxes	\$3,723	\$37,638
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital expenditures	\$(41,904 )	\$—
Equipment lease payable	\$41,904	\$—

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

**WIRELESS TELECOM GROUP, INC.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY****(unaudited)**

	Common Stock Issued	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balances at December 31, 2015	29,627,891	\$296,279	\$39,865,331	\$13,500,853	\$(20,758,012)	\$32,904,451
Net (loss)	—	—	—	(576,327 )	—	(576,327 )
Share-based compensation expense	—	—	98,619	—	—	98,619
Repurchase of treasury stock	—	—	—	—	(65,468 )	(65,468 )
Balances at March 31, 2016	29,627,891	\$296,279	\$39,963,950	\$12,924,526	\$(20,823,480)	\$32,361,275

The accompanying notes are an integral part of these condensed consolidated financial statements.

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES**

The condensed consolidated balance sheet as of March 31, 2016, the condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2016 and 2015, and the condensed consolidated statement of shareholders' equity for the three-month period ended March 31, 2016 have been prepared by the Company (as defined below) without audit. The condensed consolidated financial statements include the accounts of Wireless Telecom Group, Inc., which operates one of its product lines under the trade name Noisecom, Inc. ("Noisecom"), and its wholly-owned subsidiaries Boonton Electronics Corporation ("Boonton"), Microlab/FXR ("Microlab"), WTG Foreign Sales Corporation and NC Mahwah, Inc., which are collectively referred to herein as, the "Company". All intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements referred to above contain all necessary adjustments, consisting of normal accruals and recurring entries, which are necessary to fairly present the Company's results for the interim periods being presented.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements included in its annual report on Form 10-K for the year ended December 31, 2015. Specific reference is made to that report since certain information and footnote disclosures normally included in financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted from this report.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (including inventory valuation, accounts receivable valuation, valuation of deferred tax assets, estimated fair values of stock options and vesting periods of performance-based stock options and restricted stock) and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable.

The Company maintains significant cash investments primarily with two financial institutions, which at times may exceed federally insured limits. The Company performs periodic evaluations of the relative credit rating of these institutions as part of its investment strategy.

The Company has limited concentration of credit risk in accounts receivable due to the large number of entities comprising our customer base and their dispersion across many different industries and geographies. Credit evaluations are performed on customers requiring credit over a certain amount. Credit risk is mitigated to a lesser extent through collateral such as letters of credit, bank guarantees or payment terms like cash in advance. Credit evaluation is performed independent of the Company's sales team to ensure segregation of duties.

For the three-months ended March 31, 2016, one customer accounted for approximately 10% of the Company's consolidated sales. For the three-months ended March 31, 2015, no customer accounted for 10% or more of the Company's consolidated sales. At March 31, 2016 and December 31, 2015, no customer represented 10% or more of the Company's gross accounts receivable.

The carrying amounts of cash and cash equivalents, trade receivables, other current assets and liabilities approximate fair value due to the short-term nature of these instruments.

The Company considers all highly liquid investments purchased with maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of bank and money market accounts.

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)**

Management has evaluated subsequent events and determined that there were no subsequent events or transactions requiring recognition or disclosure in the condensed consolidated financial statements through the date the financial statements were issued.

**NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “*Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*,” which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is in the process of evaluating the impact of the adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 “*Leases*”, which creates new accounting and reporting guidelines for leasing arrangements. The new standard will require organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The standard will also require new disclosure to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early application permitted. The new standard is to be applied using a modified retrospective approach. The Company is in the process of evaluating the impact of the new pronouncement on its consolidated financial statements.

During the fourth quarter of 2015, the Company adopted ASU 2015-17, “*Balance Sheet Classification of Deferred Taxes*,” on a retrospective basis. The standard requires entities that present a classified balance sheet to classify all deferred taxes as noncurrent assets or noncurrent liabilities.

In July 2015, the FASB issued ASU 2015-11, "*Simplifying the Measurement of Inventory*." ASU 2015-11 applies to inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of ASU 2015-11 at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in US GAAP with the measurement of inventory in International Financial Reporting Standards (IFRS). ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impact of this ASU on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*" (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*," which defers the effective date by one year, with early adoption on the original effective date permitted. As a result, ASU 2014-09 will be effective for annual and interim periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the Company's consolidated financial statements, but does not expect the impact to be material.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material impact on the accompanying condensed consolidated financial statements.

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 3 – INCOME TAXES**

The Company records deferred taxes in accordance with Accounting Standards Codification (“ASC”) 740, “*Accounting for Income Taxes*.” ASC 740 requires recognition of deferred tax assets and liabilities for temporary differences between tax basis of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. The Company periodically assesses the value of its deferred tax assets and determines the necessity for a valuation allowance.

The Company had a domestic net operating loss carryforward at March 31, 2016 of approximately \$17,900,000 which expires in 2029. The Company also had a German net operating loss carryforward at March 31, 2016 of approximately \$23,400,000.

Realization of the Company’s deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdictions in future years to obtain benefit from the reversal of net deductible temporary differences and from utilization of net operating losses. The Company’s valuation allowance of \$7,012,134 is associated with the Company’s German net operating loss carryforward from an inactive German entity. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. As of March 31, 2016, management believed that it is more likely than not that the Company will fully realize the benefits of its deferred tax asset associated with its domestic net operating loss carryforward.

The deferred income tax assets (liabilities) are summarized as follows:

	March 31, <b>2016</b>	December 31, 2015
Net deferred tax asset:		
Uniform capitalization of inventory costs for tax purposes	\$172,752	\$158,599
Reserves on inventories	469,888	444,115
Accruals	30,000	10,000
Tax effect of goodwill	(515,782 )	(507,524 )
Book depreciation over tax	(49,488 )	(43,514 )



Edgar Filing: WIRELESS TELECOM GROUP INC - Form 10-Q

Other timing differences	148,087	105,725
Net operating loss carryforward	14,156,534	13,858,662
	14,411,991	14,026,063
Valuation allowance for deferred tax assets	(7,012,134 )	(7,012,134 )
	\$7,399,857	\$7,013,929

Under ASC 740, the Company must recognize the tax benefit from an uncertain position only if it is more-likely-than-not the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The tax benefits recognized in the financial statements attributable to such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon the ultimate resolution of the position.

The components of income tax expense (benefit) related to income from operations are as follows:

	Three Months Ended	
	March 31,	
	2016	2015
Current:		
Federal	\$—	\$14,631
State	—	31,284
Deferred:		
Federal	(336,915 )	93,275
State	(49,013 )	8,949
	\$(385,928)	\$148,139

9

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 3 – INCOME TAXES (Continued)**

The Company has analyzed its filing positions in all of the Federal and state jurisdictions where it is required to file income tax returns. As of March 31, 2016 and December 31, 2015, the Company identified its Federal tax return and its state tax return in New Jersey as “major” tax jurisdictions, as defined, in which it is required to file income tax returns. Based on the evaluations noted above, the Company concluded that there were no significant uncertain tax positions requiring recognition or disclosure in its condensed consolidated financial statements.

**NOTE 4 – INCOME (LOSS) PER COMMON SHARE**

Basic earnings (loss) per share is calculated by dividing income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share are calculated by using the weighted average number of shares of common stock outstanding and, when dilutive, potential shares from stock options and warrants to purchase common stock, using the treasury stock method.

	Three Months Ended March 31,	
	2016	2015
Weighted average common shares outstanding	18,606,582	19,496,455
Potentially dilutive stock options	407,144	1,180,154
Weighted average common shares outstanding, assuming dilution	19,013,726	20,676,609

Common stock options are included in the diluted earnings (loss) per share calculation when the various option exercise prices are less than their relative average market price during the periods presented in this quarterly report. The weighted average number of shares of common stock underlying options not included in diluted earnings (loss) per share, because the effects are anti-dilutive, was 2,080,857 and 1,393,446 for the three-months ended March 31, 2016 and 2015, respectively.

**NOTE 5 – INVENTORIES**

Inventory carrying value is net of inventory reserves of \$1,174,721 and \$1,110,288 at March 31, 2016 and December 31, 2015, respectively.

Inventories consist of:

	March 31, 2016	December 31, 2015
Raw materials	\$4,210,346	\$3,993,052
Work-in-process	877,098	628,140
Finished goods	3,712,432	3,447,536
	\$8,799,876	\$8,068,728

NOTE 6 – GOODWILL

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is not amortized but rather is reviewed for impairment at least annually or more frequently if a triggering event occurs. Management first makes a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test described below. If, based on the qualitative assessment, the estimated fair value is well in excess of its carrying amount, management will not perform a quantitative assessment. If, however, the conclusion is that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management then performs a two-step goodwill impairment test. Under the first step, the fair value of the reporting unit is compared with its carrying value, and, if an indication of goodwill impairment exists for the reporting unit, the Company must perform step two of the impairment test (measurement).

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 6 – GOODWILL (Continued)**

Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill as determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

The Company's goodwill balance of \$1,351,392 at March 31, 2016 and December 31, 2015 related to one of the Company's reporting units, Microlab. Management's qualitative assessment performed in the fourth quarter of 2015 did not indicate any impairment of Microlab's goodwill as its fair value was estimated to be in excess of its carrying value. Furthermore, no events have occurred since then that would change this assessment.

**NOTE 7 – ACCOUNTING FOR SHARE BASED COMPENSATION**

The Company follows the provisions of ASC 718, "*Share-Based Payment*." The Company's results for the three-month periods ended March 31, 2016 and 2015 include share-based compensation expense totaling \$98,619 and \$85,963, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within operating expenses.

***Incentive Compensation Plan:***

In 2012, the Company's Board of Directors and shareholders approved the 2012 Incentive Compensation Plan (the "Initial 2012 Plan"), which provides for the grant of restricted stock awards, non-qualified stock options and incentive stock options in compliance with the Internal Revenue Code of 1986, as amended, to employees, officers, directors, consultants and advisors of the Company who are expected to contribute to the Company's future growth and success. When originally approved, the Initial 2012 Plan provided for the grant of awards relating to 2,000,000 shares of common stock, plus those shares still available under the Company's prior incentive compensation plan. In June 2014, the Company's shareholders approved the Amended and Restated 2012 Incentive Compensation Plan (the "2012 Plan") allowing for an additional 1,658,045 shares of the Company's common stock to be available for future grants under the 2012 Plan. As of March 31, 2016, there were 2,238,500 shares available for issuance under the 2012 Plan, including those shares available under the Company's prior incentive compensation plan as of such date.

All service-based options granted have ten-year terms from the date of grant and vest annually and become fully exercisable after a maximum of five years. Performance-based options granted have ten-year terms and vest and become fully exercisable when determinable performance targets are achieved. Performance targets are agreed to, and approved by, the Company's Board of Directors or the Compensation Committee of the Board of Directors.

Provisions of the 2012 Plan require that all awards that are stock options be made at exercise prices equal to or greater than the fair market value on the date of the grant. The Company did not grant stock option awards during either of the three-month periods ended March 31, 2016 and 2015.

The following summarizes the components of share-based compensation expense by equity type for the three-months ended March 31:

	Three Months Ended March 31,	
	<b>2016</b>	2015
Service-based Restricted Common Stock	\$55,500	\$49,800
Performance-based Stock Options	28,650	30,035
Service-based Stock Options	9,116	—
Performance-based Restricted Common Stock	5,353	6,128
Total Share-Based Compensation Expense	\$98,619	\$85,963

Stock-based compensation for the three-months ended March 31, 2016 and 2015 is included in general and administrative expenses in the accompanying condensed consolidated statement of operations.

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 7 – ACCOUNTING FOR SHARE BASED COMPENSATION (Continued)*****Restricted Common Stock Awards:***

In June 2015, the Company granted 100,000 shares of restricted common stock to certain non-employee directors of the Company under the 2012 Plan. The shares were granted at a price of \$2.22 per share and will fully vest on the date of the Company's next annual shareholders meeting to be held in June 2016, or a vesting period of approximately one year, provided that the director's service continues through the vesting date. The total compensation expense to be recognized over the vesting period is \$222,000.

A summary of the status of the Company's non-vested restricted common stock, as granted under the Company's approved equity compensation plans, as of March 31, 2016, and changes during the three-months ended March 31, 2016, are presented below:

	Number	Weighted Average Grant Date Fair Value
Non-vested Restricted Shares	of Shares	
Non-vested at January 1, 2016	187,000	\$ 2.01
Granted	—	—
Forfeited	—	—
Vested	—	—
Non-vested at March 31, 2016	187,000	\$ 2.01

Under the terms of the performance-based restricted common stock award agreements pertaining to the 87,000 shares of restricted stock granted to employees in 2013, the awards will fully vest and become exercisable on the date on which the Company's Board of Directors shall have determined that specific financial milestones have been met, provided the employee remains in the employ of the Company at such time; provided, however, upon a Change in Control (as defined in the award agreements and the 2012 Plan), the restricted stock shall automatically vest as permitted by the 2012 Plan. For the performance-based restricted stock awarded in 2013, the Company's Board of Directors adopted specific revenue and earnings performance targets as vesting conditions. During the first quarter of 2015, management determined the performance conditions related to these restricted stock awards are probable to be achieved by the year ending 2020. As a result, the Company adjusted the amortization of the fair market value of these

awards over the revised implicit service period from December 2017 to December 2020. If management determines in future periods the achievement of performance conditions are probable to occur sooner than expected, the Company will accelerate the expensing of the unamortized balance as of that determination date.

As of March 31, 2016, the unearned compensation related to Company granted restricted common stock was \$157,211 of which \$55,500 (pertaining to 100,000 service-based restricted common stock awards) will be amortized on a straight-line basis through the date of the Company's next annual shareholders meeting scheduled to be held in June 2016, the vesting date. The remaining balance of \$101,711 (pertaining to 87,000 performance-based shares of restricted common stock awarded in 2013) will be amortized on a straight-line basis through December 31, 2020, the revised implicit service period.

***Performance-Based Stock Option Awards:***

A summary of performance-based stock option activity, and related information for the three-months ended March 31, 2016 follows:

	Options	Weighted Average Exercise Price
Outstanding, January 1, 2016	1,965,000	\$ 1.32
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	—	—
Outstanding, March 31, 2016	1,965,000	\$ 1.32
Options exercisable:		
March 31, 2016	1,090,000	\$ 0.96

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 7 – ACCOUNTING FOR SHARE BASED COMPENSATION (Continued)**

The aggregate intrinsic value of performance-based stock options outstanding (regardless of whether or not such options are exercisable) as of March 31, 2016 and December 31, 2015 was \$432,350 and \$846,350, respectively. The aggregate intrinsic value of performance-based stock options exercisable as of March 31, 2016 and December 31, 2015 was \$432,350 and \$846,350, respectively.

On September 8, 2015, the Company granted performance-based stock options to a non-executive officer employee to acquire 50,000 shares of common stock at an exercise price of \$1.83 per share, which represented the closing price of the Company's common stock as reported on the NYSE MKT on September 8, 2015, the date of grant. The per share fair-value of these performance-based options was \$1.03. The per share fair-value was estimated on the date of grant using the Black-Scholes option pricing method and included the following range of assumptions: dividend yield 0%, risk-free interest rate of 1.53% and expected option life of 4 years. Volatility assumption was 75.46% and the forfeiture rate was assumed to be 0%.

Under the terms of the performance-based stock option agreements, the awards will fully vest and become exercisable on the date on which the Company's Board of Directors shall have determined that specific financial performance milestones have been met, provided the employee remains in the employ of the Company at such time; provided, however, upon a Change in Control (as defined in the stock option agreements and the 2012 Plan), the stock options shall automatically vest as permitted by the 2012 Plan. During the first quarter of 2015, management determined the performance conditions related to the stock option awards granted in 2013 and grants made subsequent thereto (but on or prior to the date of determination) are probable to be achieved by the year ending 2020. As a result, the Company adjusted the amortization of the fair market value of these awards over the revised implicit service period from December 2017 to December 2020. If management determines in future periods the achievement of performance conditions are probable to occur sooner than expected, the Company will accelerate the expensing of the unamortized balance as of that determination date.

As of March 31, 2016, the unearned compensation related to the 825,000 performance-based stock options granted in August 2013 (with a weighted average per share exercise price of \$1.77) and the 50,000 performance-based stock options granted in September 2015 (with a weighted average per share exercise price of \$1.83) is \$497,729 and \$46,620, respectively, which have been, and are expected to be, amortized on a straight-line basis through December 31, 2020, the implicit service period.



The Company's performance-based stock options granted prior to 2013 (consisting of 1,090,000 options) are fully amortized.

***Service-Based Stock Option Awards:***

A summary of service-based stock option activity, and related information for the three-months ended March 31, 2016 follows:

	Options	Weighted Average Exercise Price
Outstanding, January 1, 2016	523,000	\$ 2.23
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	—	—
Outstanding, March 31, 2016	523,000	\$ 2.23
Options exercisable:		
March 31, 2016	390,083	\$ 2.54

The aggregate intrinsic value of service-based stock options (regardless of whether or not such options are exercisable) as of March 31, 2016 and December 31, 2015 was \$2,900 and \$0, respectively.

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 7 – ACCOUNTING FOR SHARE BASED COMPENSATION (Continued)**

On November 19, 2015, the Company granted to the members of the Company's Strategic Planning and Operating Committee service-based stock options to acquire 145,000 shares of common stock at an exercise price of \$1.30 per share, which represented the closing price of the Company's common stock as reported on the NYSE MKT on November 19, 2015, the date of grant. The per share fair-value of these service-based options was \$0.75. The per share fair-value was estimated on the date of grant using the Black-Scholes option pricing method and included the following range of assumptions: dividend yield 0%, risk-free interest rate of 1.68% and expected option life of 4 years. The volatility assumption was 78.22% and the forfeiture rate was assumed to be 0%.

Under the terms of the service-based stock option agreements relating to the November 19, 2015 stock option grants, the awards vest in twelve equal quarterly installments over a period of three years and shall be fully vested on November 19, 2018.

As of March 31, 2016, the unearned compensation related to the 145,000 service-based stock options granted in November 2015 (with a weighted average per share exercise price of \$1.30) was \$100,270, which will be amortized on a straight-line basis over the service period through November 2018.

At March 31, 2016, the Company's service-based stock options granted prior to November 2015 were fully amortized.

**NOTE 8 – SEGMENT INFORMATION**

The operating businesses of the Company are segregated into two reportable segments: (i) network solutions; and (ii) test and measurement. The network solutions segment is comprised primarily of the operations of Wireless Telecom Group Inc.'s subsidiary, Microlab. The test and measurement segment is comprised primarily of the Company's operations of the Noisecom product line and the operations of its subsidiary, Boonton.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company allocates resources and evaluates the performance of segments based on income or

loss from operations, excluding interest, corporate expenses and other income (expenses).

14

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 8 – SEGMENT INFORMATION (Continued)**

Financial information by reportable segment for the three-months ended March 31, 2016 and 2015 is set forth below:

	Three Months Ended March 31,	
	2016	2015
Net sales by segment:		
Network solutions	\$4,213,314	\$5,895,159
Test and measurement	2,155,101	2,732,532
Total consolidated net sales of reportable segments	\$6,368,415	\$8,627,691
Segment income (loss):		
Network solutions	\$339,926	\$971,391
Test and measurement	(312,447 )	216,464
Income (loss) from reportable segments	27,479	1,187,855
Other unallocated amounts:		
Corporate expenses	(948,130 )	(849,130 )
Other (expense) income - net	(41,604 )	3,267
Consolidated income (loss) before income tax provision (benefit)	\$(962,255 )	\$341,992
Depreciation and amortization by segment:		
Network solutions	\$55,747	\$51,061
Test and measurement	60,111	58,123
Total depreciation and amortization for reportable segments	\$115,858	\$109,184
Capital expenditures by segment (a):		
Network solutions	\$55,230	\$144,757
Test and measurement	19,244	102,079
Total consolidated capital expenditures by reportable segment	\$74,474	\$246,836

(a) Net of equipment lease payable of \$41,904 (network solutions) for the three-months ended March 31, 2016.

Financial information by reportable segment as of March 31, 2016 and December 31, 2015:

Edgar Filing: WIRELESS TELECOM GROUP INC - Form 10-Q

	2016	2015
Total assets by segment:		
Network solutions	\$10,498,204	\$10,638,961
Test and measurement	6,955,414	7,153,310
Total assets for reportable segments	17,453,618	17,792,271
Corporate assets, principally cash and cash equivalents and deferred and current taxes	17,349,287	16,914,053
Total consolidated assets	\$34,802,905	\$34,706,324

15

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 8 – SEGMENT INFORMATION (Continued)**

Consolidated net sales by region were as follows:

Sales by region	Three Months Ended March 31,	
	2016	2015
Americas	\$5,065,636	\$6,466,636
Europe, Middle East, Africa (EMEA)	948,357	1,735,842
Asia Pacific (APAC)	354,422	425,213
Total Sales	\$6,368,415	\$8,627,691

Net sales are attributable to a geographic area based on the destination of the product shipment. The majority of shipments in the Americas are to customers located within the United States. For the three-months ended March 31, 2016 and 2015, sales in the United States for all reportable segments amounted to \$4,772,171 and \$5,792,473, respectively. For the three-months ended March 31, 2016, shipments to the EMEA region were largely concentrated in Germany. Sales to Germany for all reportable segments amounted to \$236,400 of all shipments to the EMEA region. For the three-months ended March 31, 2015, shipments to the EMEA region were largely concentrated in two countries, Israel and Germany. Sales to Israel and Germany for all reportable segments amounted to \$543,394 and \$466,844, respectively, of all shipments to the EMEA region. During the three-months ended March 31, 2016, the Company shipped lower volumes of its passive components into a program within the EMEA region, as compared to the same period in 2015, resulting in a decline in sales to the EMEA region. Shipments to the APAC region were largely concentrated in China. For the three-months ended March 31, 2016 and 2015, sales in China for all reportable segments amounted to \$187,171 and \$268,582, respectively.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES*****Warranties:***

The Company typically provides one-year warranties on all of its products covering both parts and labor. The Company, at its option, repairs or replaces products that are defective during the warranty period if the proper preventive maintenance procedures have been followed by its customers. Historically, the Company's warranty

expense has been minimal.

***Leases:***

In May 2015, the Company and its landlord entered into an amendment to the existing lease agreement to remain at its principal corporate headquarters in Hanover Township, Parsippany, New Jersey through March 31, 2023. Monthly lease payments range from approximately \$33,000 in year one to approximately \$41,000 in year eight. Additionally, the Company has available an allowance of approximately \$300,000 towards alterations and improvements to the premises through November 30, 2016. The lease can be renewed at the Company's option for one five-year period at fair market value to be determined at term expiration.

The following is a summary of the Company's contractual obligations as of March 31, 2016:

**Table of Contractual Obligations**

	Total	Payments by Period			More than 5 Years
		Less than 1 Year	1-3 Years	4-5- Years	
Facility Leases	\$3,155,948	\$411,871	\$1,311,244	\$941,037	\$491,796
Operating and Equipment Leases	170,067	63,776	106,291	—	—
	\$3,326,015	\$475,647	\$1,417,535	\$941,037	\$491,796

16

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)**

*Environmental Contingencies:*

In 1982, the Company and the New Jersey Department of Environmental Protection (the “NJDEP”) agreed upon a plan to correct ground water contamination at a site, formerly leased by Boonton, located in the Township of Parsippany-Troy Hills, pursuant to which wells have been installed by the Company. The plan contemplates that the wells will be operated and that soil and water samples will be taken and analyzed until such time that contamination levels are satisfactory to the NJDEP. In 2014, the Company received approval for a groundwater permit from the NJDEP to carry out the final Remedial Action Work Plan and report. Under the final phase of the Remedial Action Work Plan, there will be limited and reduced monitoring and testing as long as concentrations at the site continue on a decreasing trend.

While management anticipates that the expenditures in connection with this site will not be substantial in future years, the Company could be subject to significant future liabilities and may incur significant future expenditures if further contaminants from Boonton’s testing are identified and the NJDEP requires additional remediation activities. Management is unable to estimate future remediation costs, if any, at this time. The Company will continue to be liable under the plan, in all future years, until such time as the NJDEP releases it from all obligations applicable thereto.

At this time, the Company believes that it is in material compliance with all environmental laws, does not anticipate any material expenditure to meet current or pending environmental requirements, and generally believes that its processes and products do not present any unusual environmental concerns. Besides the matter referred to above with the NJDEP, the Company is unaware of any existing, pending or threatened contingent liability that may have a material adverse effect on its ongoing business operations.

*Line of Credit:*

The Company maintains a line of credit with a bank. The credit facility provides borrowing availability of up to 100% of the Company’s money market account balance and 99% of the Company’s short-term investment securities (U.S. Treasury bills) and, under the terms and conditions of the loan agreement, the facility is fully secured by the



Company's money fund account and short-term investment holdings held with the bank. Advances under the facility will bear interest at a variable rate equal to the London InterBank Offered Rate ("LIBOR") in effect at the time of borrowing. Additionally, under the terms and conditions of the loan agreement, there is no annual fee and any amount outstanding under the loan facility may be paid at any time in whole or in part without penalty.

As of March 31, 2016, the Company had no borrowings outstanding under the facility and approximately \$4,500,000 of borrowing availability. The Company has no current plans to borrow from this credit facility as it believes its present cash balances will adequately meet near-term working capital requirements.

***Risks and Uncertainties:***

Proprietary information and know-how are important to the Company's commercial success. There can be no assurance that others will not either develop independently the same or similar information or obtain and use proprietary information of the Company. Certain key employees have signed confidentiality and non-compete agreements regarding the Company's proprietary information.

The Company believes that its products do not infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not assert infringement claims in the future.

## FORWARD LOOKING STATEMENTS

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts, including, without limitation, the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believes,” “expects,” “intends,” “plans,” “may,” “will,” “should,” “anticipates” or “continues” or the negative thereof or other thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These statements are based on the Company’s current expectations of future events and are subject to a number of risks and uncertainties that may cause the Company’s actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, but are not limited to, the ability of our management to successfully implement our business plan and strategy, product demand and development of competitive technologies in our market sector, the impact of competitive products and pricing, the loss of any significant customers, our abilities to protect our property rights, the effects of adoption of newly announced accounting standards, the effects of economic conditions and trade, legal and other economic risks, among others. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. These risks and uncertainties are disclosed from time to time in the Company’s filings with the Securities and Exchange Commission, the Company’s press releases and in oral statements made by or with the approval of authorized personnel of the Company. You should also consider carefully the statements in our Annual Report on Form 10-K for the year ended December 31, 2015, which address additional risks that could cause our actual results to differ from those set forth in any forward-looking statements. The Company’s forward-looking statements speak only as of the date of this Quarterly Report. The Company undertakes no obligation to publicly update or review any forward-looking statements whether as a result of new information, future developments or otherwise.

## **ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### INTRODUCTION

The Company develops, manufactures and markets a wide variety of electronic noise sources, electronic testing and measuring instruments including power meters, voltmeters and modulation meters and high-power passive microwave components for wireless products. The majority of the Company’s current business relates to its network solutions products, which are primarily used by its customers in relation to commercial infrastructure development in support of the expansion and upgrade to distributed antenna systems (“DAS”). In addition, the Company’s products are used to test the performance and capability of cellular/PCS and satellite communication systems and to measure the power of radiofrequency (RF) and microwave systems. Other applications include radio, radar, wireless local area network (WLAN) and digital television.

The operating businesses of the Company are segregated into two reportable segments: (1) network solutions and (2) test and measurement. The network solutions segment is comprised primarily of the operations of the Company’s

subsidiary, Microlab. The test and measurement segment is comprised primarily of the Company's operations (Noisecom) and the operations of its subsidiary, Boonton. Additional financial information on the Company's reportable segments as of March 31, 2016 and December 31, 2015, as well as for the three-months ended March 31, 2016 and 2015 is included in Note 8 to the Company's interim condensed consolidated financial statements set forth in this current report on Form 10-Q.

The financial information presented herein includes:

(i) Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and as of December 31, 2015; (ii) Condensed Consolidated Statements of Operations for the three-month periods ended March 31, 2016 (unaudited) and 2015 (unaudited); (iii) Condensed Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2016 (unaudited) and 2015 (unaudited); and (iv) Condensed Consolidated Statement of Shareholders' Equity for the three-month period ended March 31, 2016 (unaudited).

### **CRITICAL ACCOUNTING POLICIES**

Management's discussion and analysis of the financial condition and results of operations are based upon the Company's interim condensed consolidated financial statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements required the Company to make estimates and judgments that affect the reported amounts of assets and liabilities (including inventory valuation, accounts receivable, valuation of deferred tax assets and estimated fair value of stock options) and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses for each period.

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

On a regular basis, management evaluates its assumptions, judgments and estimates. Management believes that there have been no material changes to the items that the Company disclosed as its significant accounting policies and estimates under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in the Company’s December 31, 2015 Form 10-K.

The following represents a summary of the Company’s critical accounting policies, defined as those policies that the Company believes are: (a) the most important to the portrayal of its financial condition and results of operations, and (b) that require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

***Share-Based Compensation***

The Company follows the provisions of ASC 718, “Share-Based Payment.” The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For any performance-based or service-based options granted, the Company takes into consideration guidance under ASC 718 and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of our shares using weekly price observations over an observation period of three years. The risk-free rate is based on the U.S. Treasury yield curve rate in effect at the time of grant for periods similar to the expected option life. The estimated forfeiture rate included in the option valuation is based on the Company’s past history of forfeitures. Due to the limited amount of forfeitures in the past, the Company’s estimated forfeiture rate has been zero.

Management estimates are necessary in determining compensation expense for stock options with performance-based vesting criteria. Compensation expense for this type of stock-based award is recognized over the period from the date the performance conditions are determined to be probable of occurring through the date the applicable conditions are expected to be met. If the performance conditions are not considered probable of being achieved, no expense is recognized until such time as the performance conditions are considered probable of being met, if ever. Management evaluates whether performance conditions are probable of occurring on a quarterly basis.

***Revenue Recognition***

Revenue from product shipments, including shipping and handling fees, is recognized once delivery has occurred provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, and collectability is

reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. Sales to international distributors are recognized in the same manner. If title does not pass until the product reaches the customer's delivery site, then recognition of revenue is deferred until that time. There are no formal sales incentives offered to any of the Company's customers. Volume discounts may be offered from time to time to customers purchasing large quantities on a per transaction basis. There are no material special post shipment obligations or acceptance provisions that exist with any sales arrangements.

### ***Valuation of Inventory***

Raw material inventories are stated at the lower of cost (first-in, first-out method) or market. Finished goods and work-in-process are valued at average cost of production, which includes material, labor and manufacturing expenses.

### ***Reserve on Inventory***

The Company maintains reserves to reduce the value of inventory to the lower of cost or market and reserves for excess and obsolete inventory. The Company reviews inventory for excess and obsolescence based on its best estimates of future demand, product lifecycle status and product development plans. The Company uses historical information along with those future estimates to reduce the inventory cost basis to its estimated realizable value.

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Allowance for Doubtful Accounts***

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. A key consideration in estimating the allowance for doubtful accounts has been, and will continue to be, the Company’s customers’ payment history and aging of its accounts receivable balance. If the financial condition of any of the Company’s customers were to decline, additional allowances might be required.

***Income Taxes***

The Company records deferred taxes in accordance with ASC 740, “*Accounting for Income Taxes*.” This ASC requires recognition of deferred tax assets and liabilities for temporary differences between tax basis of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company periodically assesses the value of its deferred tax asset, a majority of which has been generated by a history of net operating losses and determines the necessity for a valuation allowance. The Company evaluates which portion, if any, will more likely than not be realized by offsetting future taxable income, taking into consideration any limitations that may exist on its use of its net operating loss carry-forwards.

***Uncertain Tax Positions***

Under ASC 740, the Company must recognize the tax benefit from an uncertain position only if it is more-likely-than-not the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The tax benefits recognized in the financial statements attributable to such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon the ultimate resolution of the position.

The Company has analyzed its filing positions in all of the Federal and state jurisdictions where it is required to file income tax returns. As of March 31, 2016 and December 31, 2015, the Company has identified its U.S. Federal tax return and its state tax return in New Jersey as “major” tax jurisdictions, as defined, in which it is required to file income tax returns. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain

tax positions requiring recognition or disclosure in its condensed consolidated financial statements.

Based on a review of tax positions for all open years and contingencies as set out in the Company's notes to the condensed consolidated financial statements, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740 during the periods ended March 31, 2016 and 2015, and the Company does not anticipate that it is reasonably possible that any material increase or decrease in its unrecognized tax benefits will occur within twelve months.

## **RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and the notes to those statements included in Part I, Item I of this Quarterly Report on Form 10-Q and in conjunction with the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

For the three-months ended March 31, 2016 as compared to the corresponding period of the previous year, consolidated net sales decreased to approximately \$6,368,000 from approximately \$8,628,000, a decrease of approximately \$2,260,000 or 26.2%.

The decrease in consolidated net sales for the three-months ended March 31, 2016 was primarily the result of a decline in order flow for the Company's network solutions products due to reductions in customer capital spending, particularly by certain domestic wireless operators, as well as a decline in sales to the EMEA region. During the three-months ended March 31, 2016, the Company shipped lower volumes of its passive components into a program within the EMEA region, as compared to the same period in 2015.

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

The Company continues to expect long-term demand for its network solutions products to improve due to the continuing worldwide expansion of broadband coverage. Additionally, sales in the Company’s test and measurement segment decreased for the three-months ended March 31, 2016 as compared to the same period of the previous year primarily due to a decrease in sales of the Company’s peak power test instruments due to delays in program funding by governmental agencies supporting radar applications.

Net sales of the Company’s network solutions products for the three-months ended March 31, 2016 were approximately \$4,213,000 as compared to approximately \$5,895,000 for the three-months ended March 31, 2015, a decrease of approximately \$1,682,000 or 28.5%. Net sales of network solutions products accounted for approximately 66% and 68% of consolidated net sales for each of the three-month periods ended March 31, 2016 and 2015, respectively.

Net sales of the Company’s test and measurement products for the three-months ended March 31, 2016 were approximately \$2,155,000 as compared to approximately \$2,733,000 for the three-months ended March 31, 2015, a decrease of approximately \$578,000 or 21.1%. Net sales of test and measurement products accounted for approximately 34% and 32% of consolidated net sales for each of the three-month periods ended March 31, 2016 and 2015, respectively.

Gross profit on net consolidated sales for the three-months ended March 31, 2016 was approximately \$2,720,000 or 42.7% as compared to approximately \$3,864,000 or 44.8% of net consolidated sales for the three-months ended March 31, 2015.

Gross profit margins are lower for the three-months ended March 31, 2016 as compared to the same period of the previous year. Consolidated gross profit margins decreased primarily due to fixed manufacturing costs being a higher percentage of cost on lower sales for the three-months ended March 31, 2016 as compared to the same period in 2015.

The Company’s products consist of several models with varying degrees of capabilities which can be customized to meet particular customer requirements. They may be incorporated directly into the electronic equipment concerned or may be stand-alone components or devices that are connected to, or used in conjunction with, such equipment from an external site, in the factory or in the field. Prices of products range from approximately \$100 to \$100,000 per unit, with most sales occurring between approximately \$2,000 and \$35,000 per unit. The Company can experience variations in gross profit based upon the mix of these products sold as well as variations due to revenue volume and economies of scale. The Company will continue to rigidly monitor costs associated with material acquisition, manufacturing and production.



Consolidated operating expenses for the three-months ended March 31, 2016 were approximately \$3,641,000 or 57% of net consolidated sales as compared to approximately \$3,525,000 or 41% of net consolidated sales for the three-months ended March 31, 2015. Consolidated operating expenses were higher for the three-months ended March 31, 2016 due to increases in consolidated research and development expenses and consolidated general and administrative expenses of approximately \$148,000 and \$62,000, respectively, offset by a decrease in consolidated sales and marketing expenses of approximately \$94,000.

Consolidated research and development expenses increased for the three-months ended March 31, 2016 primarily due to an increase in salary expenses of approximately \$121,000 and an increase in costs associated with product development projects in both our network solutions and test and measurement segments of approximately \$28,000. The increase in consolidated general and administrative expenses for the three-months ended March 31, 2016 was primarily due to an increase of professional fees of approximately \$96,000, partially offset by lower variable compensation expense of approximately \$50,000 and an adjustment to bad debt expense of approximately \$44,000. Consolidated sales and marketing expenses decreased for the three-months ended March 31, 2016 primarily due to lower salary expenses of approximately \$66,000 and lower non-employee sales commission of approximately \$62,000, partially offset by an increase in trade show expenses of approximately \$33,000.

Other expenses (income) increased by approximately \$45,000 for the three-months ended March 31, 2016, as compared to the corresponding period of the previous year. The increase is primarily due to an increase in costs of approximately \$38,000 in connection with the Company's ground water management plan.

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

For the three-months ended March 31, 2016, the Company recorded a tax benefit of approximately \$386,000. For the three-months ended March 31, 2015, the Company recorded tax expense of approximately \$148,000. The tax benefit recorded for the three-months ended March 31, 2016 was primarily due to losses generated from the Company’s operations during the period. The tax expense recorded for the three-months ended March 31, 2015 was primarily the result of income generated from the Company’s operations and was predominantly comprised of a non-cash deferred tax expense for Federal income taxes and a current provision for state income taxes for which the Company makes estimated tax payments on a quarterly basis, when applicable.

For the three-months ended March 31, 2016, the Company realized a net loss of approximately \$576,000 or \$0.03 loss per share on a basic and diluted basis, as compared to net income of approximately \$194,000 or \$0.01 income per share on a basic and diluted basis for the corresponding period of the previous year, a decrease of approximately \$770,000. The decrease was primarily due to the factors discussed above.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company’s working capital has decreased by approximately \$904,000 to approximately \$21,160,000 at March 31, 2016, from approximately \$22,064,000 at December 31, 2015. At March 31, 2016 and December 31, 2015, the Company had a current ratio of 9.8 to 1 and 13.5 to 1, respectively.

The Company had cash and cash equivalents of approximately \$9,772,000 at March 31, 2016, compared to approximately \$9,726,000 at December 31, 2015. The Company believes its current level of cash and cash equivalents is sufficient to fund the current operating, investing and financing activities.

The Company expects to realize tax benefits in future periods due to the available net operating loss carryforwards resulting from the disposition of a former wholly-owned subsidiary in 2010. Accordingly, future taxable income is expected to be offset by the utilization of net operating loss carryforwards and as a result, will increase the Company’s liquidity as cash needed to pay Federal income taxes will be substantially reduced.

The Company realized cash from operating activities of approximately \$228,000 for the three-month period ending March 31, 2016. The primary source of this cash was due to a decrease in accounts receivable, an increase in accounts payable, and a decrease in prepaid expenses and other assets, partially offset by an increase in inventories, a net loss from operations for the three-month period, and a decrease in accrued expenses and other current liabilities.

The Company realized cash from operating activities of approximately \$277,000 for the three-month period ending March 31, 2015. The primary source of this cash was due to an increase in accounts payable, a decrease in prepaid expenses and other assets, and net income from operations for the three-month period, partially offset by an increase in accounts receivable, an increase in inventories and a decrease in accrued expenses and other current liabilities.

The Company has historically been able to turn over its accounts receivable approximately every two months. This average collection period has been sufficient to provide the working capital and liquidity necessary to operate the Company.

Net cash used for investing activities for the three-months ended March 31, 2016 and 2015 was approximately \$74,000 and \$247,000, respectively. The use of these funds was for capital expenditures.

Cash used for financing activities for the three-months ended March 31, 2016 was approximately \$108,000. The use of these funds was for the repurchase of 42,995 shares of the Company's outstanding common stock and for periodic payments on an equipment lease. Cash used for financing activities for the three-months ended March 31, 2015 was approximately \$48,000 for periodic payments on an equipment lease.

The stock repurchase may continue to be modified or re-initiated at any time. The Company will continue to monitor market conditions and evaluate opportunities to allocate its capital, which may include the repurchasing of the Company's outstanding common stock.

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

As of March 31, 2016, future minimum lease payments related to the Company’s facility lease and equipment leases are shown below:

Table of Contractual Obligations

	Total	Payments by Period			
		Less than 1 Year	1-3 Years	4-5- Years	More than 5 Years
Facility Leases	\$3,155,948	\$411,871	\$1,311,244	\$941,037	\$491,796
Operating and Equipment Leases	170,067	63,776	106,291	—	—
	\$3,326,015	\$475,647	\$1,417,535	\$941,037	\$491,796

The Company maintains a line of credit with a bank. The credit facility provides borrowing availability of up to 100% of the Company’s money market account balance and 99% of the Company’s short-term investment securities (U.S. Treasury bills) and, under the terms and conditions of the loan agreement, the facility is fully secured by our money fund account and short-term investment holdings held with the bank. Advances under the facility will bear interest at a variable rate equal to LIBOR in effect at time of borrowing. Additionally, there is no annual fee and any amount outstanding under the loan facility may be paid at any time in whole or in part without penalty. As of March 31, 2016, the Company had no borrowings outstanding under the facility and approximately \$4,500,000 of borrowing availability.

The Company may pursue strategic opportunities, including potential acquisitions, mergers, divestitures or other activities, which may require significant use of the Company’s capital resources. The Company may incur costs as a result of such activities and such activities may affect the Company’s liquidity in future periods.

In 2015, the Company instituted cost reduction plans, which reduced overall headcount and other operating expenses, to better position it to take advantage of growth opportunities. The reduction in total headcount reduced annualized salary and benefit costs in 2015 by over \$1,500,000, net of severance charges of \$137,000, which have been reinvested by the Company in its business to improve the strength of its management team and support new product innovations. During the three-months ended March 31, 2016, the Company continued its restructuring efforts by instituting a plan to further reduce costs. As a result of this most recent effort, the Company expects to generate annualized cost reductions of approximately \$600,000, net of severance charges of \$50,000, which are being reinvested in strategic initiatives. The Company believes these cost reduction efforts, and continued diligent monitoring of its current operating expenses, will help position the Company for growth and ongoing development of new products.

The Company believes that its financial resources from working capital are adequate to meet its current needs. However, should current global economic conditions deteriorate, additional working capital funding may be required which may be difficult to obtain due to restrictive credit markets.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

#### **INFLATION AND SEASONALITY**

The Company does not anticipate that inflation will significantly impact its business or its results of operations nor does it believe that its business is seasonal.

### ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

### ITEM 4 – CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are designed to ensure that the information required to be included in our Securities and Exchange Commission (“SEC”) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that the information relating to Wireless Telecom Group, Inc., including our consolidated subsidiaries, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the period covered by this report, our disclosure controls and procedures are effective.

#### (b) Changes in Internal Controls over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Securities Exchange Act of 1934, as amended, there was no change identified in our internal control over financial reporting that occurred as of the end of the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

Item 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings described in Item 3 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Item 1A. RISK FACTORS

There have been no material changes in our risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

*Issuer Purchases of Equity Securities*

The Company announced the continuation of its stock repurchasing program on November 23, 2015, under which approximately 1,200,000 shares may be repurchased by the Company. During the fiscal year ended December 31, 2015, the Company repurchased 977,447 shares under its repurchase program.

During the quarter ended March 31, 2016, the Company repurchased 42,995 shares under its stock repurchase program, resulting in the aggregate repurchase of 1,020,442 shares of the Company’s common stock at an aggregate purchase price of approximately \$1,500,000 since the Company announced the continuation of its repurchase program on November 23, 2015. The maximum number of shares remaining eligible for repurchase under the plan as of March 31, 2016 was 201,656.

Period	Total number of shares purchased	Average price paid per share (\$)	Total number of shares purchased as part of publicly	Maximum number of shares that may yet be purchased under the
--------	----------------------------------	-----------------------------------	------------------------------------------------------	--------------------------------------------------------------

			announced plans or programs *	plans or programs
January 1, 2016 – January 31, 2016	16,285	\$ 1.51	16,285	228,366
February 1, 2016 – February 29, 2016	26,710	\$ 1.50	26,710	201,656
March 1, 2016 – March 31, 2016	—	—	—	201,656
Total	42,995	\$ 1.50	42,995	

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

25



Item 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K/A filed with the SEC on April 22, 2005)
3.2	Amended and Restated By-Laws (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K, dated October 12, 2012, and filed with the SEC on October 15, 2012)
31.1*	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (Principal Executive Officer)
31.2*	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (Principal Financial Officer)
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (Principal Executive Officer)
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (Principal Financial Officer)
101**	The following financial statements from Wireless Telecom Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed on May 16, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of cash flows, (iv) condensed consolidated statement of shareholders' equity, and (v) the notes to interim condensed consolidated financial statements.
101.INS**	XBRL INSTANCE DOCUMENT
101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT

\* Filed herewith.

\*\* Furnished herewith.

**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.

WIRELESS TELECOM GROUP, INC.

(Registrant)

Date: May 16, 2016 /s/ Paul Genova

Paul Genova

Chief Executive Officer

Date: May 16, 2016 /s/ Robert Censullo

Robert Censullo

Chief Financial Officer

27

**EXHIBIT INDEX**

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to our Annual Report on Form 10-K/A filed with the SEC on April 22, 2005)
3.2	Amended and Restated By-Laws (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K, dated October 12, 2012, and filed with the SEC on October 15, 2012)
31.1*	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (Principal Executive Officer)
31.2*	Certification Pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 (Principal Financial Officer)
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (Principal Executive Officer)
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 (Principal Financial Officer)
101**	The following financial statements from Wireless Telecom Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed on May 16, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of cash flows, (iv) condensed consolidated statement of shareholders' equity, and (v) the notes to interim condensed consolidated financial statements.
101.INS**	XBRL INSTANCE DOCUMENT
101.SCH**	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL**	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF**	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB**	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE**	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT

\* Filed herewith.

\*\* Furnished herewith.