

WIRELESS TELECOM GROUP INC

Form 10-Q

November 16, 2015

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 **September 30, 2015**

**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  
(State or Other Jurisdiction  
of Incorporation or Organization)  
25 Eastmans Road

22-2582295  
(I.R.S. Employer  
Identification No.)  
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 November 9, 2015: 19,626,455

WIRELESS TELECOM GROUP, INC.

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## PART 1 – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## WIRELESS TELECOM GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

## - ASSETS -

	September 30, 2015 (unaudited)	December 31, 2014
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 10,778,097	\$ 10,723,513
Accounts receivable - net of allowance for doubtful accounts of \$56,333 and \$51,421 for 2015 and 2014, respectively	5,537,793	5,106,241
Inventories	8,716,387	8,541,077
Deferred income taxes - current	901,269	2,026,269
Prepaid expenses and other current assets	326,289	835,250
<b>TOTAL CURRENT ASSETS</b>	<b>26,259,835</b>	<b>27,232,350</b>
<b>PROPERTY, PLANT AND EQUIPMENT - NET</b>	<b>1,722,181</b>	<b>1,689,289</b>
<b>OTHER ASSETS:</b>		
Goodwill	1,351,392	1,351,392
Deferred income taxes - non-current	6,171,458	5,263,380
Other assets	693,153	752,511
<b>TOTAL OTHER ASSETS</b>	<b>8,216,003</b>	<b>7,367,283</b>
<b>TOTAL ASSETS</b>	<b>\$36,198,019</b>	<b>\$36,288,922</b>

## - LIABILITIES AND SHAREHOLDERS' EQUITY -

## CURRENT LIABILITIES:

Accounts payable	\$ 1,355,739	\$ 1,185,230
Accrued expenses and other current liabilities	539,486	1,307,043
Equipment leases payable - current	50,457	134,230
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,945,682</b>	<b>2,626,503</b>

## LONG TERM LIABILITIES:

Deferred rent	22,301	—
Equipment leases payable	—	32,054

## COMMITMENTS AND CONTINGENCIES

## SHAREHOLDERS' EQUITY:

Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value, 75,000,000 shares authorized, 29,640,891 and 29,510,891 shares issued, 19,626,455 and 19,496,455 shares outstanding, respectively	296,409	295,109
Additional paid-in-capital	39,775,698	39,530,325

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Retained earnings	13,477,170	13,124,172
Treasury stock at cost, 10,014,436 shares	(19,319,241)	(19,319,241)
TOTAL SHAREHOLDERS' EQUITY	34,230,036	33,630,365
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$36,198,019	\$36,288,922

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
NET SALES	\$8,339,155	\$11,372,215	\$25,180,143	\$30,996,462
COST OF SALES	4,715,944	5,607,564	14,126,798	16,036,139
GROSS PROFIT	3,623,211	5,764,651	11,053,345	14,960,323
OPERATING EXPENSES				
Research and development	1,026,580	863,011	2,899,481	2,542,112
Sales and marketing	1,224,559	1,359,197	3,911,997	4,058,417
General and administrative	1,209,672	1,416,873	3,592,847	4,163,800
TOTAL OPERATING EXPENSES	3,460,811	3,639,081	10,404,325	10,764,329
OPERATING INCOME	162,400	2,125,570	649,020	4,195,994
OTHER EXPENSE - NET	5,880	27,568	2,913	65,396
NET INCOME BEFORE INCOME TAXES	156,520	2,098,002	646,107	4,130,598
PROVISION FOR INCOME TAXES	81,381	1,114,828	293,109	1,991,535
NET INCOME	\$75,139	\$983,174	\$352,998	\$2,139,063
INCOME PER COMMON SHARE:				
BASIC	\$0.00	\$0.05	\$0.02	\$0.10
DILUTED	\$0.00	\$0.05	\$0.02	\$0.10

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 Nine Months Ended September 30,	
	2015	2014
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$352,998	\$2,139,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	338,826	361,760
Share-based compensation expense	223,273	234,801
Deferred rent	22,301	—
Deferred income taxes	216,922	1,536,650
Provision for doubtful accounts	4,912	(68,077 )
Inventory reserves	35,599	318,397
Changes in assets and liabilities:		
Accounts receivable	(436,464 )	(1,280,746 )
Inventories	(210,909 )	(1,112,649 )
Prepaid expenses and other assets	568,319	55,685
Accounts payable	170,509	568,208
Accrued expenses and other current liabilities	(767,557 )	(146,850 )
Net cash provided by operating activities	518,729	2,606,242
<b>CASH FLOWS (USED) BY INVESTING ACTIVITIES</b>		
Capital expenditures	(371,718 )	(267,328 )
<b>CASH FLOWS (USED) BY FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	23,400	117,000
Repayments of equipment lease payable	(115,827 )	(108,211 )
Repurchase of common stock - 0 and 4,815,110 shares, respectively	—	(9,630,219 )
Net cash (used by) financing activities	(92,427 )	(9,621,430 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>54,584</b>	<b>(7,282,516 )</b>
Cash and cash equivalents, at beginning of period	10,723,513	16,599,249
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$ 10,778,097</b>	<b>\$ 9,316,733</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the period for income taxes	\$63,762	\$448,617
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital expenditures	\$—	\$(149,432 )

Equipment lease payable	\$—	\$149,432
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**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, 2014	29,510,891	\$295,109	\$39,530,325	\$13,124,172	\$(19,319,241)	\$33,630,365
Net income	—	—	—	352,998	—	352,998
Stock issued under equity compensation plan	100,000	1,000	(1,000 )	—	—	—
Stock options exercised	30,000	300	23,100	—	—	23,400
Share-based compensation expense	—	—	223,273	—	—	223,273
Balances at September 30, 2015	29,640,891	\$296,409	\$39,775,698	\$13,477,170	\$(19,319,241)	\$34,230,036

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 September 30, 2015, the condensed consolidated statements of operations for the three and nine-month periods ended September 30, 2015 and 2014, the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014, and the condensed consolidated statement of shareholders' equity for the nine-month period ended September 30, 2015 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, 2014. 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 and estimated fair values of stock options) 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 and nine-month periods ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

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 and nine-months ended September 30, 2015, no customer accounted for 10% or more of the Company's consolidated sales. For the three and nine-months ended September 30, 2014, one customer accounted for 10% and 11% of the Company's consolidated sales, respectively. At September 30, 2015, no customer represented 10% or more of the Company's gross accounts receivable. However, at December 31, 2014, one customer represented 11% of the Company's gross accounts receivable balance.

The carrying amounts of cash and cash equivalents, trade receivables, other current assets and accounts payable 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 July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 June 2014, the FASB issued ASU 2014-12, “Compensation-Stock Compensation” (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period - Consensus of the FASB Emerging Issues Task Force. ASU 2014-12 requires an entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Additionally, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved, and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered; if the performance target becomes probable of being achieved before the end of the requisite service period, then the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. Finally, the total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest, and should be adjusted to reflect those awards that ultimately vest. An entity is required to adopt ASU 2014-12 for annual and interim periods beginning after December 15, 2015. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”). 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. The guidance, as stated in ASU 2014-09, is effective for annual and interim periods beginning after December 15, 2016. 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. 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.

### **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.

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

The Company has a domestic net operating loss carryforward at September 30, 2015 of approximately \$17,000,000 which expires in 2029. The Company also has a German net operating loss carryforward at September 30, 2015 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 September 30, 2015, management believes 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:

	September 30, 2015	December 31, 2014
Net deferred tax asset:		
Uniform capitalization of inventory costs for tax purposes	\$ 165,160	\$ 168,119
Reserves on inventories	429,138	414,898
Allowance for doubtful accounts	22,533	20,568
Accruals	15,000	240,000
Tax effect of goodwill	(498,515)	(471,487 )
Deferred rent	10,036	—
Book depreciation over tax	(7,708 )	(17,699 )
Net operating loss carryforward	13,949,217	13,947,384
	14,084,861	14,301,783
Valuation allowance for deferred tax assets	(7,012,134 )	(7,012,134 )
	\$7,072,727	\$7,289,649

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 related to income from operations are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Current:				
Federal	\$—	\$34,650	\$17,457	\$68,455
State	14,154	199,240	58,730	386,430
Deferred:				
Federal	58,689	795,495	193,406	1,366,520
State	8,538	85,443	23,516	170,130
	\$81,381	\$1,114,828	\$293,109	\$1,991,535

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 September 30, 2015 and December 31, 2014, the Company has 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 has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in its condensed consolidated financial statements.

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 4 - INCOME PER COMMON SHARE**

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average common shares outstanding	19,626,455	19,419,063	19,549,532	21,044,296
Potentially dilutive stock options	523,507	1,010,588	915,384	1,184,725
Weighted average common shares outstanding, assuming dilution	20,149,962	20,429,651	20,464,916	22,229,021

Common stock options are included in the diluted earnings 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 per share, because the effects are anti-dilutive, was 2,061,830 and 1,708,802 for the three-months ended September 30, 2015 and 2014, respectively. For the nine-months ended September 30, 2015 and 2014, the weighted average number of shares of common stock underlying options not included in diluted earnings per share was 1,691,515 and 1,627,182, respectively.

**NOTE 5 – INVENTORIES**

Inventory carrying value is net of inventory reserves of \$1,072,846 and \$1,037,247 at September 30, 2015 and December 31, 2014, respectively.

Inventories consist of:	September 30, 2015	December 31, 2014
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Raw materials	\$4,282,986	\$4,161,734
Work-in-process	732,975	735,364
Finished goods	3,700,426	3,643,979
	\$8,716,387	\$8,541,077

## 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).

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.

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 6 – GOODWILL (Continued)**

The Company's goodwill balance of \$1,351,392 at September 30, 2015 and December 31, 2014 relates to one of the Company's reporting units, Microlab. Management's qualitative assessment performed in the fourth quarter of 2014 did not indicate any impairment of Microlab's goodwill as its fair value is 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 and nine-month periods ended September 30, 2015 include share-based compensation expense totaling \$51,347 and \$223,273, respectively. Results for the three and nine-month periods ended September 30, 2014 include share-based compensation expense totaling \$154,268 and \$234,801, 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 September 30, 2015, there were 2,364,000 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.

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 nine-month periods ended September 30, 2015 and 2014.

The following summarizes the components of share-based compensation expense by equity type for the three and nine-months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service-based Restricted Common Stock	\$55,500	\$49,800	\$155,100	\$130,333
Performance-based Restricted Common Stock	(636 )	17,700	11,620	17,700
Performance-based Stock Options	(3,517 )	86,768	56,553	86,768
Total Share-Based Compensation Expense	\$51,347	\$154,268	\$223,273	\$234,801

Stock-based compensation for the three and nine-months ended September 30, 2015 and 2014 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 (assuming continued service through such date), or a vesting period of approximately one year. 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 stock compensation plans, as of September 30, 2015, and changes during the nine-months ended September 30, 2015, are presented below:

	Number	Weighted Average Grant Date Fair Value
Non-vested Restricted Shares	of Shares	
Non-vested at January 1, 2015	180,000	\$ 2.09
Granted	100,000	\$ 2.22
Forfeited	(13,000 )	\$ 1.77
Vested	(80,000 )	\$ 2.49
Non-vested at September 30, 2015	187,000	\$ 2.01

Under the terms of the performance-based restricted common stock award agreements (pertaining to the 100,000 shares of restricted stock granted in 2013), the restricted stock 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. 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 any unamortized balance as of that determination date.

As of September 30, 2015, the unearned compensation related to Company granted restricted common stock was \$284,271 of which \$166,500 (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 \$117,771 (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 nine-months ended September 30, 2015 follows:

	Options	Weighted Average Exercise Price
Outstanding, January 1, 2015	2,070,000	\$ 1.33
Granted	50,000	\$ 1.83
Exercised	(30,000 )	\$ 0.78
Forfeited	(125,000 )	\$ 1.77
Expired	—	—
Outstanding, September 30, 2015	1,965,000	\$ 1.32
Options exercisable:		
September 30, 2015	1,090,000	\$ 0.96

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**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 September 30, 2015 and December 31, 2014 was \$595,650 and \$2,792,690, respectively. The aggregate intrinsic value of performance-based stock options exercisable as of September 30, 2015 and December 31, 2014 was \$595,650 and \$1,882,550, respectively.

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 these stock option 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 any unamortized balance as of that determination date.

On September 8, 2015, the Company granted performance-based stock options to acquire 50,000 shares of common stock at an exercise price of \$1.83 per share, which represents 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 granted during the three-month period ended September 30, 2015 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%.

As of September 30, 2015, the unearned compensation related to the 950,000 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 \$550,122 and \$51,527, respectively, which will 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 nine-months ended September 30, 2015 follows:

	Options	Weighted Average Exercise Price
Outstanding, January 1, 2015	522,000	\$ 2.51
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	(144,000)	\$ 2.33
Outstanding, September 30, 2015	378,000	\$ 2.58
Options exercisable:		
September 30, 2015	378,000	\$ 2.58

The aggregate intrinsic value of service-based stock options exercisable as of September 30, 2015 and December 31, 2014 was \$0 and \$102,640, respectively.

At September 30, 2015, the Company's service-based stock options are fully amortized.

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****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 operations of Wireless Telecom Group, Inc. which operates 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).

Financial information by reportable segment for the three and nine-months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales by segment:				
Network solutions	\$5,481,651	\$8,034,568	\$16,708,137	\$22,026,239
Test and measurement	2,857,504	3,337,647	8,472,006	8,970,223
Total consolidated net sales of reportable segments	\$8,339,155	\$11,372,215	\$25,180,143	\$30,996,462
Segment income:				
Network solutions	\$901,277	\$2,772,136	\$2,596,224	\$6,484,802
Test and measurement	34,818	405,543	389,030	622,290
Income from reportable segments	936,095	3,177,679	2,985,254	7,107,092
Other unallocated amounts:				
Corporate expenses	(773,695 )	(1,052,109 )	(2,336,234 )	(2,911,098 )
Other (expense) - net	5,880	(27,568 )	(2,913 )	(65,396 )
Consolidated income before income tax provision	\$156,520	\$2,098,002	\$646,107	\$4,130,598
Depreciation and amortization by segment:				
Network solutions	\$58,317	\$42,828	\$164,447	\$117,942
Test and measurement	56,754	82,124	174,379	243,818



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Total depreciation and amortization for reportable segments	\$ 115,071	\$ 124,952	\$ 338,826	\$ 361,760
Capital expenditures by segment:				
Network solutions	\$91,000	\$35,317	\$266,599	\$ 198,008
	—	35,057	105,119	69,320
Total consolidated capital expenditures by reportable segment	\$91,000	\$70,374	\$371,718	\$267,328

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

Financial information by reportable segment as of September 30, 2015 and December 31, 2014:

	2015	2014
Total assets by segment:		
Network solutions	\$11,066,273	\$11,088,332
Test and measurement	7,112,772	7,006,853
Total assets for reportable segments	18,179,045	18,095,185
Corporate assets, principally cash and cash equivalents and deferred and current taxes	18,018,974	18,193,737
Total consolidated assets	\$36,198,019	\$36,288,922

Net consolidated sales by region were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
Sales by region	2015	2014	2015	2014
Americas	\$6,539,352	\$8,521,225	\$19,161,206	\$23,624,414
Europe, Middle East, Africa (EMEA)	1,284,596	1,752,637	4,579,863	4,556,438
Asia Pacific (APAC)	515,207	1,098,353	1,439,074	2,815,610
Total Sales	\$8,339,155	\$11,372,215	\$25,180,143	\$30,996,462

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 September 30, 2015 and 2014, sales in the United States for all reportable segments amounted to \$6,087,609 and \$8,089,561, respectively. For the nine-months ended September 30, 2015 and 2014, sales in the United States for all reportable segments amounted to \$17,494,870 and \$22,138,237, respectively. Shipments to the EMEA region were largely concentrated in two countries, Israel and Germany. For the three-months ended September 30, 2015, sales to Israel and Germany for all reportable segments amounted to \$338,867 and \$229,682 of all shipments to the EMEA region, respectively. For the three-months ended September 30, 2014, sales to Israel and Germany for all reportable segments amounted to \$625,217 and \$262,790, respectively of all shipments to the EMEA region. For the nine-months ended September 30, 2015, sales to Israel and Germany amounted to \$1,247,182 and \$891,234 of all the shipments to the EMEA region, respectively. For the nine-months ended September 30, 2014, sales to Israel and Germany amounted to

\$1,248,059 and \$1,005,477, respectively of all shipments to the EMEA region. Shipments to the APAC region were largely concentrated in China. For the three-months ended September 30, 2015 and 2014, sales in China for all reportable segments amounted to \$303,263 and \$526,927, respectively. For the nine-months ended September 30, 2015 and 2014, sales in China for all reportable segments amounted to \$900,592 and \$1,049,909, 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.

**WIRELESS TELECOM GROUP, INC.****NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)*****Leases:***

In May 2015, the Company and its landlord entered into a 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 September 30, 2015:

**Table of Contractual Obligations**

	Total	Payments by Period			More than 5 Years
		Less than 1 Year	1-3 Years	4-5- Years	
Facility Leases	\$3,355,885	\$405,873	\$1,292,148	\$927,332	\$730,532
Operating and Equipment Leases	201,955	63,776	138,179	—	—
	\$3,557,840	\$469,649	\$1,430,327	\$927,332	\$730,532

***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.

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

As of September 30, 2015, 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, 2014, 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 September 30, 2015 and December 31, 2014, as well as for the three and nine-months ended September 30, 2015 and 2014 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 September 30, 2015 (unaudited) and as of December 31, 2014; (ii) Condensed Consolidated Statements of Operations for the three and nine-month periods ended September 30, 2015 (unaudited) and 2014 (unaudited); (iii) Condensed Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2015 (unaudited) and 2014 (unaudited); and (iv) Condensed Consolidated Statement of Shareholders' Equity for the nine-month period ended September 30, 2015 (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, 2014 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 September 30, 2015 and December 31, 2014, 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 September 30, 2015 and 2014, 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, 2014.

For the nine-months ended September 30, 2015 as compared to the corresponding period of the previous year, net consolidated sales decreased to approximately \$25,180,000 from approximately \$30,996,000, a decrease of approximately \$5,816,000 or 18.8%. For the three-months ended September 30, 2015 as compared to the corresponding period of the previous year, net consolidated sales decreased to approximately \$8,339,000 from approximately \$11,372,000, a decrease of approximately \$3,033,000 or 26.7%.

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

The decrease in net sales for the three and nine-months ended September 30, 2015 was primarily the result of continued softness in demand for the Company's network solutions products due to reductions in customer capital spending, particularly by certain domestic wireless operators. While sales to wireless operators have decreased in 2015, the Company expects 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 and nine-months ended September 30, 2015 as compared to the same periods of the previous year primarily due to a decrease in sales of the Company's peak power test instruments. The Company shipped a significant number of units during the third quarter of 2014 in fulfillment of a large government contract.

Net sales of the Company's network solutions products for the nine-months ended September 30, 2015 were approximately \$16,708,000 as compared to approximately \$22,026,000 for the nine-months ended September 30, 2014, a decrease of approximately \$5,318,000 or 24.1%. Net sales of the Company's network solutions products for the three-months ended September 30, 2015 were approximately \$5,482,000 as compared to approximately \$8,035,000 for the three-months ended September 30, 2014, a decrease of approximately \$2,553,000 or 31.8%. Net sales of network solutions products accounted for approximately 66% and 71% of net consolidated sales for each of the three and nine-month periods ended September 30, 2015 and 2014, respectively.

Net sales of the Company's test and measurement products for the nine-months ended September 30, 2015 were approximately \$8,472,000 as compared to approximately \$8,970,000 for the nine-months ended September 30, 2014, a decrease of approximately \$498,000 or 5.6%. Net sales of the Company's test and measurement products for the three-months ended September 30, 2015 were approximately \$2,858,000 as compared to approximately \$3,338,000 for the three-months ended September 30, 2014, a decrease of approximately \$480,000 or 14.4%. Net sales of test and measurement products accounted for approximately 34% and 29% of net consolidated sales for each of the three and nine-month periods ended September 30, 2015 and 2014, respectively.

Gross profit on net consolidated sales for the nine-months ended September 30, 2015 was approximately \$11,053,000 or 43.9% as compared to approximately \$14,960,000 or 48.3% of net consolidated sales for the nine-months ended September 30, 2014. Gross profit on net consolidated sales for the three-months ended September 30, 2015 was approximately \$3,623,000 or 43.4% as compared to approximately \$5,765,000 or 50.7% of net consolidated sales for the three-months ended September 30, 2014.

Gross profit margins are lower for the three and nine-months ended September 30, 2015 as compared to the same periods of the previous year. Consolidated gross profit margins decreased primarily due to relatively unchanged manufacturing labor costs and relatively fixed manufacturing costs being applied to lower sales for the three and nine-months ended September 30, 2015 as compared to the same periods in 2014, as well as mix of product sold.

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 nine-months ended September 30, 2015 were approximately \$10,404,000 or 41% of net consolidated sales as compared to approximately \$10,764,000 or 35% of net consolidated sales for the nine-months ended September 30, 2014. Consolidated operating expenses were lower for the nine-months ended September 30, 2015 due to decreases in consolidated general and administrative expenses and consolidated sales and marketing expenses of approximately \$571,000 and \$146,000, respectively, offset by an increase in consolidated research and development expenses of approximately \$357,000. Consolidated operating expenses for the three-months ended September 30, 2015 were approximately \$3,461,000 or 42% of net consolidated sales as compared to approximately \$3,639,000 or 32% of net consolidated sales for the three-months ended September 30, 2014. Consolidated operating expenses were lower for the three-months ended September 30, 2015 due to decreases in consolidated general and administrative expenses and consolidated sales and marketing expenses of approximately \$207,000 and \$135,000, respectively, offset by an increase in consolidated research and development expenses of approximately \$164,000.

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

Consolidated research and development expenses increased for the nine-months ended September 30, 2015 primarily due to an increase in costs associated with product development projects in our network solutions segment of approximately \$259,000 and an increase in salary expenses of approximately \$164,000. Consolidated sales and marketing expenses decreased for the nine-months ended September 30, 2015 primarily due to lower non-employee sales commission of approximately \$120,000 and lower salary expenses of approximately \$28,000, partially offset by an increase in trade show expenses of approximately \$32,000. The decrease in consolidated general and administrative expenses for the nine-months ended September 30, 2015 was primarily due to lower variable compensation expense of approximately \$475,000 and lower corporate legal and consulting fees of approximately \$152,000, partially offset by higher salary expenses of approximately \$62,000.

Consolidated research and development expenses increased for the three-months ended September 30, 2015 primarily due to an increase in salary expenses of approximately \$102,000 and an increase in costs associated with product development projects in our network solutions segment of approximately \$99,000. Consolidated sales and marketing expenses decreased for the three-months ended September 30, 2015 primarily due to lower non-employee sales commission of approximately \$78,000 and lower salaries expenses of approximately \$72,000 (due to lower accrued variable sales incentive compensation), partially offset by an increase in trade show expenses of approximately \$23,000. The decrease in consolidated general and administrative expenses for the three-months ended September 30, 2015 was primarily due to lower variable compensation expense of approximately \$150,000 and lower share-based compensation expense of approximately \$103,000.

Other (income) expenses decreased by approximately \$22,000 and \$62,000 for the three and nine-months ended September 30, 2015, as compared to the corresponding periods of the previous year. The decrease is primarily due to reduced costs of approximately \$26,000 and \$64,000 recorded during the three and nine-months ended September 30, 2014, respectively, associated with the Company's ground water management plan.

For the three and nine-months ended September 30, 2015, the Company recorded tax expense of approximately \$81,000 and \$293,000, respectively. For the three and nine-months ended September 30, 2014, the Company recorded tax expense of approximately \$1,115,000 and \$1,992,000, respectively. The tax expense is lower for the three and nine-months ended September 30, 2015 as compared to the same periods of the previous year due to a lower amount of income generated from the Company's operations. The tax expense recorded is 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.

For the nine-months ended September 30, 2015, the Company realized net income of approximately \$353,000 or \$0.02 income per share on a basic and diluted basis, as compared to net income of approximately \$2,139,000 or \$0.10 income per share on a basic and diluted basis for the corresponding period of the previous year, a decrease of approximately \$1,786,000. For the three-months ended September 30, 2015, the Company realized net income of approximately \$75,000 or \$0.00 income per share on a basic and diluted basis, as compared to net income of

approximately \$983,000 or \$0.05 income per share on a basic and diluted basis for the corresponding periods of the previous year, a decrease of approximately \$908,000. The decreases were primarily due to the factors discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's working capital has decreased by approximately \$292,000 to approximately \$24,314,000 at September 30, 2015, from approximately \$24,606,000 at December 31, 2014. At September 30, 2015 and December 31, 2014, the Company had a current ratio of 13.5 to 1 and 10.4 to 1, respectively.

The Company had cash and cash equivalents of approximately \$10,778,000 at September 30, 2015, compared to approximately \$10,724,000 at December 31, 2014. 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.



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

The Company realized cash from operating activities of approximately \$519,000 for the nine-month period ending September 30, 2015. The primary source of this cash was due to net income from operations for the nine-month period, a decrease in prepaid expenses and other assets and an increase in accounts payable, partially offset by a decrease in accrued expenses and other current liabilities, an increase in accounts receivable and an increase in inventories.

The Company realized cash from operating activities of approximately \$2,606,000 for the nine-month period endi