WIRELESS TELECOM GROUP INC
Form 10-Q
May 09, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2018**

OR

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

(973) 386-9696

(Registrant's Telephone Number, Including Area Code)

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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x	Emerging growth company o

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

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

Number of shares of Common Stock outstanding as of May 1, 2018: 20,979,651

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WIRELESS TELECOM GROUP, INC.

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WIRELESS TELECOM GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts and par value)

PART I – FINANCIAL INFORMATION

Item 1 – FINANCIAL STATEMENTS

	March 31	December 31
	2018	2017
	(Unaudited)	
CURRENT ASSETS		
Cash & cash equivalents	$ 2,240	$ 2,458
Accounts receivable - net of reserves of $42 and $44, respectively	10,747	9,041
Inventories - net of reserves of $1,732 and $1,856, respectively	7,053	6,526
Prepaid expenses and other current assets	1,725	4,733
TOTAL CURRENT ASSETS	21,765	22,758
PROPERTY PLANT AND EQUIPMENT - NET	2,639	2,730
OTHER ASSETS		
Goodwill	10,598	10,260
Acquired Intangible Assets, net	4,391	4,511
Deferred income taxes	5,958	5,939
Other	772	723
TOTAL OTHER ASSETS	21,719	21,433
TOTAL ASSETS	$ 46,123	$ 46,921
CURRENT LIABILITIES		
Short term debt	$ 2,747	$ 1,335
Accounts payable	3,922	4,109
Accrued expenses and other current liabilities	3,884	2,894
Deferred Revenue	808	629
TOTAL CURRENT LIABILITIES	11,361	8,967
LONG TERM LIABILITIES		
Long term debt	456	494
Other long term liabilities	100	1,590
Deferred Tax Liability	852	767
TOTAL LONG TERM LIABILITIES	1,408	2,851
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, 34,168,252 and 33,868,252 shares issued, 20,979,651 and 22,772,167 shares outstanding	342	339
Additional paid in capital	47,967	47,494

Retained earnings	7,971	7,176
Treasury stock at cost, - 13,188,601 and 11,096,085 shares, respectively	(24,509)	(20,910)
Accumulated Other Comprehensive Income	1,583	1,004
TOTAL SHAREHOLDERS’ EQUITY	33,354	35,103
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 46,123	$ 46,921

See accompanying notes to condensed consolidated financial statements.

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WIRELESS TELECOM GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS) (UNAUDITED)

(In thousands, except share and per share amounts)

	For the Three Months Ended March 31,	
	2018	2017
NET REVENUES	$13,264	$9,549
COST OF REVENUES	6,996	5,216
GROSS PROFIT	6,268	4,333
Operating Expenses		
Research and Development	1,157	1,087
Sales and Marketing	1,910	1,552
General and Administrative	2,681	3,412
Total Operating Expenses	5,748	6,051
Operating income/(loss)	520	(1,718)
Other income/(expense)	2	(2)
Interest Expense	(92)	(49)
Income/(loss) before taxes	430	(1,769)
Tax Provision/(Benefit)	56	(538)
Net Income/(Loss)	$374	$(1,231)
Other Comprehensive Income/(Loss):		
Foreign currency translation adjustments	579	(59)
Comprehensive Income/(Loss)	$953	$(1,290)
Net Income/(Loss) per common share:		
Basic	$0.02	$(0.06)
Diluted	$0.02	$(0.06)
Weighted average shares outstanding:		
Basic	20,644,409	20,386,678
Diluted	21,633,117	20,386,678

In periods with a net loss, the basic loss per share equals the diluted loss per share as all common stock equivalents are excluded from the per share calculation because they are anti-dilutive.

See accompanying notes to condensed consolidated financial statements.

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WIRELESS TELECOM GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	For the Three Months Ended March 31	
	2018	2017
CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES		
Net Income/(loss)	$374	$(1,231)
Adjustments to reconcile net income/(loss) to net cash (used) by operating activities:		
Depreciation and amortization	626	414
Amortization of debt issuance fees	19	9
Share-based compensation expense	188	301
Deferred rent	5	8
Deferred income taxes	37	(496)
Provision for (recovery of) doubtful accounts	(1)	1
Inventory reserves	19	100
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(1,574)	(231)
Inventories	(524)	(412)
Prepaid expenses and other assets	(507)	125
Accounts payable	(255)	352
Accrued expenses and other liabilities	635	160
Net cash (used) by operating activities	(958)	(900)
CASH FLOWS (USED) BY INVESTING ACTIVITIES		
Capital expenditures	(199)	(192)
Acquisition of business net of cash acquired	(811)	(8,596)
Net cash (used) by investing activities	(1,010)	(8,788)
CASH FLOWS PROVIDED/(USED) BY FINANCING ACTIVITIES		
Revolver borrowings	10,603	3,399
Revolver repayments	(9,191)	(1,494)
Term loan borrowings	-	760
Term loan repayments	(38)	-
Debt issuance fees	-	(215)
Proceeds from exercise of stock options	288	38
Net cash provided/(used) by financing activities	1,662	2,488
Effect of exchange rate changes on cash and cash equivalents	88	27
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(218)	(7,173)
Cash and cash equivalents, at beginning of period	2,458	9,351
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	$2,240	$2,178
SUPPLEMENTAL INFORMATION:		
Cash paid during the period for interest	$36	$5
Cash paid during the period for income taxes	$9	$-
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of Common Shares as Consideration	$-	$5,999

See accompanying notes to condensed consolidated financial statements.

WIRELESS TELECOM GROUP, INC.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(In thousands, except share amounts)

	Common Stock Issued	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balances at December 31, 2017	33,868,252	$ 339	$ 47,494	$ 7,176	$ (20,910)	$ 1,004	$ 35,103
Adoption of Accounting Standard	-	-	-	421	-	-	421
Adjusted Opening Equity	33,868,252	$ 339	$ 47,494	$ 7,597	$ (20,910)	$ 1,004	$ 35,524
Net Income (loss)	-	-	-	374	-	-	374
Issuance of shares in connection with stock options exercised	300,000	3	285	-	-	-	288
Forfeiture of shares issued in connection with CommAgility acquisition	-	-	-	-	(3,599)	-	(3,599)
Share-based compensation expense	-	-	188	-	-	-	188
Cumulative translation adjustment	-	-	-	-	-	579	579
Balances at March 31, 2018	34,168,252	$ 342	$ 47,967	$ 7,971	$ (24,509)	$ 1,583	$ 33,354

See accompanying notes to condensed consolidated financial statements.

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WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

Basis of Presentation

Wireless Telecom Group, Inc., a New Jersey corporation, together with its subsidiaries (“we”, “us”, “our” or the “Company”), is a global designer and manufacturer of advanced radio frequency (“RF”) and microwave components, modules, systems and instruments and currently markets its products and services worldwide under the Boonton, Microlab, Noisecom and CommAgility brands. Serving the wireless, telecommunication, satellite, military, aerospace, and semiconductor industries, Wireless Telecom Group products enable innovation across a wide range of traditional and emerging wireless technologies. With a unique set of high-performance products including peak power meters, signal analyzers, signal processing modules, long term evolution (“LTE”) physical layer (“PHY”) and stack software, power splitters and combiners, global positioning system (“GPS”) repeaters, public safety monitors, noise sources, and programmable noise generators, Wireless Telecom Group supports the development, testing, and deployment of wireless technologies around the globe.

The condensed consolidated balance sheet as of March 31, 2018, the condensed consolidated statements of operations and comprehensive income/(loss) for the three months ended March 31, 2018 and 2017, the condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017 and the condensed consolidated statement of shareholders’ equity for the three months ended March 31, 2018 have been prepared by the Company without audit. The condensed consolidated financial statements include the accounts of Wireless Telecom Group, Inc., doing business as and operating under the trade name, Noisecom, and its wholly owned subsidiaries including Boonton Electronics Corporation (“Boonton”), Microlab/FXR (“Microlab”), Wireless Telecommunications Ltd. and CommAgility Limited (“CommAgility”). All intercompany transactions and balances have been eliminated in consolidation.

It is suggested that these interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements, and the notes thereto, included in the Company’s latest shareholders’ annual report (Form 10-K).

Condensed Consolidated Financial Statements

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, 2017. 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 reduced for interim periods in accordance with SEC rules.

The results of operations for the three month period ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018.

Use of Estimates

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, intangible assets, estimated fair values of stock options and estimated fair values of acquired assets and liabilities in business combinations) and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of net revenues and expenses during the reporting period. Actual results could differ from those estimates.

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WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where the local currency is the functional currency, are translated from foreign currencies into U.S. dollars at period-end exchange rates while income and expenses are translated at the weighted average spot rate for the periods presented. Translation gains or losses related to net assets located outside the U.S. are shown as a component of accumulated other comprehensive income in the Consolidated Statements of Shareholders' Equity. Gains and losses resulting from foreign currency transactions, which are denominated in currencies other than the Company's functional currency, are included in the Consolidated Statements of Operations and Comprehensive Loss.

Concentration Risk

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

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.

For the three months ended March 31, 2018, one customer accounted for approximately 16% of the Company's consolidated revenues. For the three months ended March 31, 2017, one customer accounted for approximately 11% of the Company's consolidated revenues. At March 31, 2018, one customer exceeded 10% of consolidated gross accounts receivable at 23% of the Company's gross accounts receivable. At December 31, 2017, two customers exceeded 10% of consolidated gross accounts receivable at 18% and 11%, respectively.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities. The Company's term loan and revolving credit facility bear interest at a variable interest rate plus an applicable margin and, therefore, carrying amount approximates fair value.

Contingent Consideration

Under the terms of the CommAgility Share Purchase Agreement the Company may be required to pay additional purchase price if certain financial targets are achieved for the years ending December 31, 2017 and December 31, 2018 ("CommAgility Earn-Out"). The financial targets for 2017 were not achieved therefore there was no earn-out payment made in the three months ended March 31, 2018. As of December 31, 2017, the Company estimated the fair value of the contingent consideration remaining to be paid based on the 2018 financial results to be $630. The Company is required to reassess the fair value of the contingent consideration at each reporting period.

The significant inputs used in this fair value estimate include gross revenues and Adjusted EBITDA, as defined, scenarios for the earn-out periods for which probabilities are assigned to each scenario to arrive at a single estimated outcome. The estimated outcome is then discounted based on individual risk analysis of the liability. Although the

WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

Company believes its estimates and assumptions are reasonable, different assumptions, including those regarding the operating results of CommAgility or changes in the future, may result in different estimated amounts.

As of March 31, 2018, the Company's contingent consideration liability has been estimated at $678 and is recorded in other current liabilities in the accompanying condensed consolidated balance sheet. The Company will satisfy this obligation with a cash payment to the sellers of CommAgility upon the achievement of the financial targets for 2018. The contingent consideration liability is considered a Level 3 fair value measurement.

Subsequent Events

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

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

Adopted During The Three Months Ended March 31, 2018

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("Topic 606") using the "modified retrospective" method, meaning the standard is applied only to the most current period presented in the financial statements. Furthermore, we elected to apply the standard only to those contracts which were not completed as of the date of the adoption. Results for reporting periods beginning on the date of adoption are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with accounting standards in effect for those periods (see Note 3).

Upon adoption, a cumulative effect adjustment of $421 was made and the impact resulted in an increase to retained earnings on the Condensed Consolidated Balance Sheet as of January 1, 2018. The adjustment was based on customer-specific contracts in effect at December 31, 2017 and reflects revenue that would have been recognized in 2018 in accordance with Accounting Standard Codification ("ASC") 605 "Revenue Recognition" and Subtopic 985

"Software" collectively referred to as "Topic 605". The beginning balance of deferred revenue decreased by $258 representing amounts that were invoiced to customers and not recognized and prepaid and other current assets increased by $163 representing unbilled receivables recognized under Topic 606. Further, accounts receivable increased $199 as the contra accounts receivable balance representing estimated product returns was reclassified to other current liabilities.

The most significant impact of Topic 606 relates to the Company's accounting for software license agreements which have multiple deliverables. Under Topic 605 the Company could not establish vendor specific objective evidence of fair value ("VSOE") for its undelivered elements and therefore was not able to separate its delivered software licenses from its future undelivered software license releases. Topic 606 no longer requires separability of promised goods, such as software licenses, on the basis of VSOE. Rather, Topic 606 requires the Company to identify the performance obligations in the contract — that is, those promised goods and services (or bundles of promised goods or services) that are distinct — and allocate the transaction price of the contract to those performance obligations on the basis of estimated standalone selling prices ("SSPs"). For these arrangements, the Company will recognize revenue for each deliverable at a point in time when control is transferred to the customer since each deliverable has standalone value.

The primary impact of adopting the new standard results in an acceleration of revenues recognized for the aforementioned multiple deliverable software license arrangements, which are primarily in the Embedded Solutions segment. These multiple deliverable arrangements represented less than 2% of total consolidated revenues for the year ended December 31, 2017.

The timing of revenue recognition for digital signal processing hardware in the Embedded Solutions segment, radio frequency solutions in the Network Solutions segment and noise generators and components and power meters and analyzers and related services in the Test and Measurement segment remains substantially unchanged.

The following line items in our Condensed Consolidated Statement of Operations and Comprehensive Income for the current reporting period and Condensed Consolidated Balance Sheet as of March 31, 2018 have been provided to reflect both the adoption of Topic 606 as well as a comparative presentation in accordance with Topic 605 previously in effect:

WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

	Three Months Ended March 31, 2018		
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME	**As Reported (in Accordance with ASC Topic 606)**	**Balances Without Adoption of ASC Topic 606**	**Impact of Adoption Higher/(Lower)**
Net sales	$13,264	$ 12,958	$ 306
Operating income	430	124	306
Net income	374	68	306

	As of March 31, 2018		
CONDENSED CONSOLIDATED BALANCE SHEET	**As Reported (in Accordance with ASC Topic 606)**	**Balances Without Adoption of ASC Topic 606**	**Impact of Adoption Higher/(Lower)**
CURRENT ASSETS			
Prepaid expenses and other current assets	$1,725	$ 1,241	$ 484
CURRENT LIABILITIES			
Deferred revenue	808	1,068	(260)
SHAREHOLDERS' EQUITY			
Retained earnings	7,971	7,665	306

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations: Clarifying the Definition of a Business Topic 805* ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017, and early adoption is permitted. The Company adopted this standard on January 1, 2018 and will apply the standard to any future business combinations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230); Classification of Certain Cash Receipts and Cash Payments*, to address some questions about the presentation and classification of certain cash receipts and payments in the statement of cash flows. The update addresses eight specific issues, including contingent

consideration payments made after a business combination, distribution received from equity method investees and the classification of cash receipts and payments that have aspects of more than one class of cash flows. This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company adopted this standard on January 1, 2018, and it had no material impact on our financial statements.

Except for the change in accounting policies for revenue recognition as a result of adopting Topic 606, there have been no other changes to our significant accounting policies as described in the 2017 Form 10-K that had a material impact on our condensed consolidated financial statements and related notes.

WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which creates new accounting and reporting guidelines for leasing arrangements. The new guidance requires 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 guidance also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early application permitted.

The Company is currently evaluating its population of leases and is continuing to assess all potential impacts of ASU 2016-02. The Company does anticipate recognition of additional assets and corresponding liabilities related to leases upon adoption, but has not yet quantified these at this time. The Company plans to adopt the standard effective January 1, 2019, but has not yet selected a transition method.

NOTE 3 – REVENUE

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for promised goods or services. The Company’s performance obligations are satisfied either over time or at a point in time. Revenue from performance obligations that transferred at a point in time accounted for approximately 94% of the Company’s total revenue for the three months ended March 31, 2018.

Nature of Products and Services

Hardware

The Company generally has one performance obligation in its arrangements involving the sales of radio frequency solutions in the Network Solutions segment, digital signal processing hardware in the Embedded Solutions segment and noise generators and components and power meter and analyzers in the Test and Measurement segment. When the terms of a contract include the transfer of multiple products, each distinct product is identified as a separate performance obligation. Generally, satisfaction occurs when control of the promised goods is transferred to the customer in exchange for consideration in an amount for which we expect to be entitled. Generally, control is transferred when legal title of the asset moves from the Company to the customer. We sell our products to a customer based on a purchase order, and the shipping terms per each individual order are primarily used to satisfy the single performance obligation. However, in order to determine control has transferred to the customer, the Company also considers:

- when the Company has a present right to payment for the asset
- when the Company has transferred physical possession of the asset to the customer
- when the customer has the significant risks and rewards of ownership of the asset
- when the customer has accepted the asset

Software

Arrangements involving licenses of software in the Embedded Solutions segment may involve multiple performance obligations, most notably subsequent releases of the software. The Company has concluded that each software release in a multiple deliverable arrangement in the Embedded Solutions segment is a distinct performance obligation and, accordingly, transaction price is allocated to each release when the customer obtains control of the software.

Performance obligations that are not distinct at contract inception are combined. Specifically, with the Company’s sales of software, contracts that include customization may result in the combination of the customization services with the license as one distinct performance obligation and recognized over time. The duration of these performance obligations are typically one year or less.

WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

Services

Arrangements involving calibration and repair services in the Company’s Test and Measurement segment are generally considered a single performance obligation and are recognized as the services are rendered.

Shipping and Handling

Shipping and handling activities performed after the customer obtains control are accounted for as fulfillment activities and recognized as cost of revenues.

Significant Judgments

For the Company’s more complex software and services arrangements significant judgment is required in determining whether licenses and services are distinct performance obligations that should be accounted for separately, or, are not distinct, and thus accounted for together. Further, in cases where we determine that performance obligations should be accounted for separately, judgement is required to determine the standalone selling price for each distinct performance obligation.

Certain of the Company shipments include a limited return right. In accordance with Topic 606 the Company recognizes revenue net of expected returns.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in contract assets or contract liabilities (deferred revenue) on the Company’s condensed consolidated balance sheet. The Company records a contract asset when revenue is recognized prior to invoicing, or deferred revenue when revenue is recognized subsequent to invoicing. Contract assets are recorded in prepaid expenses and other current

assets and are $484 and $162 as of March 31, 2018 and December 31, 2017 (as adjusted), respectively. The increase in contract assets from December 31, 2017 is due to contract assets recognized in the current period. Deferred revenue is $808 and $371 as of March 31, 2018 and December 31, 2017 (as adjusted), respectively. Revenue recognized in the current period that was included in the opening deferred revenue balance was $163.

Disaggregated Revenue

We disaggregate our revenue from contracts with customers by product family and geographic location for each of our segments as we believe it best depicts how the nature, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

	Three Months Ended March 31, 2018			
Total Net Revenues by Revenue Type	Network Solutions	Test and Measurement	Embedded Solutions	Total
RF Solutions	$5,511	$ -	$ -	$5,511
Noise Generators and Components	-	1,499	-	1,499
Power Meters and Analyzers	-	1,980	-	1,980
Signal Processing Hardware	-	-	2,906	2,906
Software Licenses	-	-	483	483
Services	-	284	601	885
Total Net Revenue	$5,511	$ 3,763	$ 3,990	$13,264

WIRELESS TELECOM GROUP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

(In thousands, unless otherwise noted)

Total Net Revenues By Geographic Areas	Network Solutions	Test and Measurement	Embedded Solutions	Total
Americas	$ 4,159	$ 2,515	$ 1,423	$8,097
EMEA	941	449	2,370	3,760
APAC	411	799	197	1,407
Total Net Revenue	$ 5,511	$ 3,763	$ 3,990	$13,264

	Three Months Ended March 31, 2017			
Total Net Revenues By Revenue Type	Network Solutions	Test and Measurement	Embedded Solutions	Total
RF Solutions	$ 5,515	$ -	$ -	$5,515
Noise Generators and Components	-	1,217	-	1,217
Power Meters and Analyzers	-	1,536	-	1,536
Signal Processing Hardware	-	-	382	382
Software Licenses	-	-	85	85
Services	-	284	530	814
Total Net Revenue	$ 5,515	$ 3,037	$ 997	$9,549

Total Net Revenues by Geographic Areas	Network Solutions	Test and Measurement	Embedded Solutions	Total
Americas	4,710	1,690	565	6,965
EMEA	572	554	397	1,523
APAC	233	793	35	1,061
Total Net Revenue	5,515	3,037	997	9,549

NOTE 4 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets generally consist of income tax receivables, prepaid insurance, prepaid maintenance agreements and the short term portion of debt issuance costs. As of December 31, 2017, prepaid and other current assets included a $3,599 contingent asset representing the fair value of consideration shares issued in connection with the CommAgility acquisition. Under the claw back provision of the Share Purchase Agreement (see Note 5) the consideration shares were forfeited in March 2018 and are no longer outstanding. Accordingly, prepaid expenses and other current assets decreased by $3,599 from December 31, 2017. The forfeited shares are recorded as treasury stock in the condensed consolidated statement of shareholders’ equity as of March 31, 2018.

NOTE 5 – ACQUISITION OF COMMAGILITY

On February 17, 2017, Wireless Telecommunications, Ltd. (the “Acquisition Subsidiary”), a company incorporated in England and Wales which is a wholly owned subsidiary of Wireless Telecom Group, Inc., completed the acquisition of all the issued shares in CommAgility Limited, (“CommAgility”) a company incorporated in England and Wales (the “Acquisition”) from CommAgility’s founders. The Acquisition was completed pursuant to the terms of a Share Purchase Agreement, dated February 17, 2017, and entered into by and among the Company, the Acquisition Subsidiary and the founders. The Company paid $11,318 in cash on acquisition date and issued 3,488 shares of

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newly issued Company common stock ("Consideration Shares") with an acquisition date fair value of $6,000. In addition to the acquisition date cash purchase price the sellers were paid an additional $2,500 in the form of deferred purchase price payable in installments beginning in March 2017 through January 2019 and were paid an additional purchase price adjustment based on working capital and cash levels of $1,400. Lastly, the sellers could have earned an additional £10,000 in purchase price if certain financial targets were met for the years ending December 31, 2017 and December 31, 2018. (See Note 1).

Pursuant to the Share Purchase Agreement, 2,093 of the Consideration Shares were subject to forfeiture and return to the Company if (a) 2017 Adjusted EBITDA, as defined, generated by CommAgility is less than £2,400; or (b) 2018 Adjusted EBITDA, as defined, generated by CommAgility is less than £2,400 (in each case as determined by an audit of CommAgility conducted by the accountants of the Acquisition Subsidiary in accordance with the terms of the Share Purchase Agreement). During the three months ended March 31, 2018 all consideration shares were forfeited as the 2017 EBITDA threshold was not achieved. The fair value of these shares of $3,599 is recorded in treasury stock as of March 31, 2018.

The following table summarizes the activity related to contingent consideration and deferred purchase price for the three months ended March 31, 2018:

	Contingent Consideration	Deferred Purchase Price
Balance at December 31, 2017	$ 630	$ 1,230
Accretion of Interest	24	-
Payment	-	(811)
Foreign Currency Translation	24	48
Balance as of March 31, 2018	$ 678	$ 467

As of March 31, 2018, contingent consideration liability and deferred purchase price are included in accrued expenses and other current liabilities on the condensed consolidated balance sheet.

NOTE 6 – 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.

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 amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.

The effective rate of income tax provision of 13% for the three months ended March 31, 2018 was lower than the statutory rates in the United States and United Kingdom primarily due to research and development deductions in the United Kingdom and non-qualified stock option deductions offset by nondeductible expenses and U.S. state income taxes.

NOTE 7 - INCOME (LOSS) PER COMMON SHARE

Basic income (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 income (loss) per share

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is calculated by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period and, when dilutive, potential shares from stock options using the treasury stock method and unvested restricted shares. In periods with a net loss, the basic loss per share equals the diluted loss per share as all common stock equivalents are excluded from the per share calculation because they are anti-dilutive. In accordance with ASC 260, "Earnings Per Share", the following table reconciles basic shares outstanding to fully diluted shares outstanding.

	For the Three Months Ended March 31,	
	2018	2017
Weighted average common shares outstanding	20,644	20,386
Potentially dilutive stock options	989	780
Weighted average common shares outstanding, assuming dilution	21,633	21,166

Common stock equivalents are included in the diluted income (loss) per share calculation only when option exercise prices are lower than the average market price of the common shares for the period presented.

The weighted average number of options to purchase common stock not included in diluted loss per share, because the effects are anti-dilutive, was 0 and 1,413 for the three months ended March 31, 2018 and 2017, respectively.

NOTE 8 – INVENTORIES

Inventory carrying value is net of inventory reserves of $1,732 and $1,856 at March 31, 2018 and December 31, 2017, respectively.

Inventories consist of:	March 31, 2018	December 31, 2017
Raw materials	$3,678	$ 3,231

Work-in-process	592	631
Finished goods	2,783	2,664
	$7,053	$ 6,526

NOTE 9 – GOODWILL AND INTANGIBLE ASSETS

The Company's goodwill balance of $10,598 at March 31, 2018 relates to two of the Company's reporting units, Microlab ($1,351) and Embedded Solutions ($9,247). Management's qualitative assessment performed in the fourth quarter of 2017 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.

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Goodwill consists of the following:

	March 31, 2018
Beginning Balance	$10,260
Foreign Currency Translation	338
Ending Balance	$10,598

Intangible assets consist of the following:

	March 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Foreign Exchange Translation	Net Carrying Amount
Customer Relationships	$2,766	$ (646)	$ 268	$ 2,388
Patents	615	(143)	59	531
Non Compete Agreements	1,107	(436)	100	771
Tradename	629	-	72	701
Total	$5,117	$ (1,225)	$ 499	$ 4,391

	December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Foreign Exchange Translation	Net Carrying Amount
Customer Relationships	$2,766	$ (494)	$ 178	$ 2,450
Patents	615	(109)	39	545
Non Compete Agreements	1,107	(334)	69	842
Tradename	629	-	45	674
Total	$5,117	$ (937)	$ 331	$ 4,511

Amortization of acquired intangible assets was $287 and $200 for the three months ended March 31, 2018 and 2017, respectively. Amortization of acquired intangible assets is included as part of general and administrative expenses in the accompanying condensed consolidated statements of operations and comprehensive income/(loss).

The estimated future amortization expense related to intangible assets is as follows as of March 31, 2018:

Remainder 2018	$873
2019	1,165
2020	805
2021	754
2022	94
Total	$3,691

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NOTE 10 – DEBT

Debt consists of the following:

	March 31, 2018
Revolver at LIBOR Plus Margin	$ 2,595
Term Loan at LIBOR Plus Margin	608
Total Debt	3,203
Debt Maturing within one year	(2,747)
Non-current portion of long term debt	$ 456

In connection with the acquisition of CommAgility, the Company entered into a Credit Agreement with Bank of America, N.A. (the "Lender") on February 16, 2017 (the "New Credit Facility"), which provided for a term loan in the aggregate principal amount of $760 (the "Term Loan") and an asset based revolving loan (the "Revolver"), which is subject to a Borrowing Base Calculation (as defined in the New Credit Facility) of up to a maximum availability of $9,000 ("Revolver Commitment Amount"). The borrowing base is calculated as 85% of Eligible accounts receivable and inventory, as defined, subject to certain caps and limits. The borrowing base is calculated on a monthly basis. The proceeds of the term loan and revolver were used to finance the acquisition of CommAgility.

In connection with the issuance of the New Credit Facility, the Company paid lender and legal fees of $215 which were primarily related to the Revolver and are capitalized and presented as other current and non-current assets in the Consolidated Balance Sheets. These costs are recognized as additional interest expense over the term of the related debt instrument using the straight line method.

The Company must repay the Term Loan in installments of $38 per quarter due on the first day of each fiscal quarter beginning April 1, 2017 and continuing until the term loan maturity date, on which the remaining balance is due in a final installment. The future principal payments under the term loan are $114 in 2018 and $494 in 2019. The Term Loan and Revolver are both scheduled to mature on November 16, 2019.

The Term and Revolver Loans bear interest at the LIBOR rate plus a margin. The margin on the outstanding balance of the Company's Term Loans and Revolver Loans were fixed at 3.50% and 3.00% per annum, respectively, through September 30, 2017. Thereafter, the margins were subject to increase or decrease by Lender on the first day of each of

the Borrowers' fiscal quarters based upon the Fixed Charge Coverage Ratio (as defined in the New Credit Facility) as of the most recently ended fiscal quarter falling into three levels. If the Company's Fixed Charge Coverage Ratio is greater than or equal to 1.25 to 1.00, a margin of 3.25% and 2.75%, respectively, is added to LIBOR rate with a step up to 3.50% and 3.00%, respectively, if the ratio is greater than or equal to 1.00 to 1.00 but less than 1.25 to 1.00 and another step up to 3.75% and 3.25%, respectively, if the ratio is less than 1.00 to 1.00. The Company is also required to pay a commitment fee on the unused commitments under the Revolver at a rate equal to 0.50% per annum and early termination fee of (a) 2% of the Revolver Commitment Amount and Term Loan if termination occurs before the first anniversary of the New Credit Facility or (b) 1% of the Revolver Commitment Amount and Term Loan if termination occurs after the first anniversary of the New Credit Facility but before the second anniversary of the New Credit Facility. The Company's interest rate plus margin as of March 31, 2018 on the New Credit Facility was 4.75% and 5.25% for the Revolver and Term Loan, respectively. The Company's interest rate plus margin as of December 31, 2017 on the New Credit Facility was 4.38% and 4.88% for the Revolver and Term Loan, respectively.

The New Credit Facility is secured by liens on substantially all of the Company's and its domestic subsidiaries' assets including a pledge of 66 2/3% of the equity interests in the Company's Foreign Subsidiaries (as defined in the New Credit Facility). The New Credit Facility contains customary affirmative and negative covenants for a transaction of this type, including, among others, the provision of annual, quarterly and monthly financial statements and compliance certificates, maintenance of property, insurance, compliance with laws and environmental matters, restrictions on incurrence of indebtedness, granting of liens, making investments and acquisitions, paying dividends, entering into affiliate transactions and asset sales. Events of default under the New Credit Facility include but are not limited to: failure to pay obligations when due, breach or failure of any covenant, insolvency or bankruptcy, materially misleading representations or warranties, occurrence of a Change in Control (as defined) or occurrence of conditions that have a Material Adverse Effect (as defined).

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On August 3, 2017 the Company entered into Amendment No. 1 to the New Credit Facility, effective June 30, 2017, which amended the definition of "EBITDA" to exclude the non-cash inventory adjustment of $1,930 recorded during the three months ended June 30, 2017 and to reduce the pledge of equity interests in the Company's Foreign Subsidiaries from 66 2/3% to 66 1/3%.

As of March 31, 2018, and the date hereof, the Company is in compliance with the covenants of the New Credit Facility.

NOTE 11 - ACCOUNTING FOR SHARE BASED COMPENSATION

The Company's results for the three months ended March 31, 2018 and 2017 include share-based compensation expense totaling $188 and $301, respectively. Such amounts have been included in the consolidated statement of operations and comprehensive income/loss within operating expenses. The Company accounts for forfeitures when they occur.

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 equity, including 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 shares of common stock, plus those shares subject to awards previously issued under the Company's 2000 Stock Option Plan that expire, are canceled or are terminated after adoption of the Initial 2012 Plan without having been exercised in full and would have been available for subsequent grants under the 2000 Stock Option 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 shares of the Company's common stock to be available for future grants under the 2012 Plan. The 2012 Plan provides that if awards are forfeited, expire or otherwise terminate without issuance of the shares underlying the awards, or if the award does not result in issuance of all or part of the shares underlying the award, the unissued shares are again available for awards under the 2012 Plan. As a result of certain award forfeitures and cancellations, as of March 31, 2018, there are approximately 2,500 shares available for issuance under the 2012 Plan.

All service-based (time vesting) options granted have ten-year terms from the date of grant and typically vest annually and become fully exercisable after a maximum of five years. However, vesting conditions are determined on a grant by grant basis. Performance-based options granted have ten-year terms and vest and become fully exercisable when determinable performance targets are achieved. Performance targets are approved by the Company's compensation committee of the Board of Directors. Under the 2012 Plan, options may be granted to purchase shares of the Company's common stock exercisable only at prices equal to or above the fair market value on the date of the grant.

The following summarizes the components of share-based compensation expense by equity type for the respective periods:

	Three Months Ended March 31	
	2018	2017
Service-based Restricted Common Stock	$63	$ 57
Performance-based Restricted Common Stoc		