

WIRELESS TELECOM GROUP INC

Form 10-Q

November 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number**

1-11916

WIRELESS TELECOM GROUP, INC.

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

New Jersey 22-2582295  
**(State or Other Jurisdiction (I.R.S. Employer  
of Incorporation or Organization) 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)**

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 October 28, 2016: 18,721,346

WIRELESS TELECOM GROUP, INC.

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## PART 1 – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## WIRELESS TELECOM GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016 <b>(unaudited)</b>	December 31, 2015
<b>- ASSETS -</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$8,101,707	\$9,726,007
Accounts receivable - net of allowance for doubtful accounts of \$96,780 and \$105,568 for 2016 and 2015, respectively	5,635,968	5,451,161
Inventories - net of reserves of \$1,331,657 and \$1,110,288, respectively	9,450,740	8,068,728
Prepaid expenses and other current assets	672,038	586,889
<b>TOTAL CURRENT ASSETS</b>	<b>23,860,453</b>	<b>23,832,785</b>
PROPERTY, PLANT AND EQUIPMENT - NET	2,136,286	1,742,888
OTHER ASSETS:		
Goodwill	1,351,392	1,351,392
Deferred income taxes	7,448,262	7,013,929
Other assets	694,343	765,330
<b>TOTAL OTHER ASSETS</b>	<b>9,493,997</b>	<b>9,130,651</b>
<b>TOTAL ASSETS</b>	<b>\$35,490,736</b>	<b>\$34,706,324</b>
<b>- LIABILITIES AND SHAREHOLDERS' EQUITY -</b>		
CURRENT LIABILITIES:		
Accounts payable	\$2,137,722	\$1,046,651
Accrued expenses and other current liabilities	678,828	648,010
Equipment leases payable	14,368	73,760
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,830,918</b>	<b>1,768,421</b>
LONG TERM LIABILITIES:		
Deferred rent	60,906	33,452
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, 29,756,224 and 29,627,891 shares issued, 18,721,346 and 18,636,008 shares outstanding, respectively	297,562	296,279
Additional paid-in-capital	40,296,660	39,865,331
Retained earnings	12,828,170	13,500,853
Treasury stock at cost, 11,034,878 and 10,991,883 shares, respectively	(20,823,480)	(20,758,012)

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TOTAL SHAREHOLDERS' EQUITY	32,598,912	32,904,451
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$35,490,736	\$34,706,324

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,	
	2016	2015	2016	2015
NET REVENUES	\$8,344,301	\$8,339,155	\$22,322,820	\$25,180,143
COST OF REVENUES	4,521,302	4,715,944	12,440,817	14,126,798
GROSS PROFIT	3,822,999	3,623,211	9,882,003	11,053,345
OPERATING EXPENSES				
Research and development	948,654	1,026,580	3,042,916	2,899,481
Sales and marketing	1,216,265	1,224,559	3,703,522	3,911,997
General and administrative	1,389,996	1,209,672	4,141,520	3,592,847
TOTAL OPERATING EXPENSES	3,554,915	3,460,811	10,887,958	10,404,325
OPERATING INCOME (LOSS)	268,084	162,400	(1,005,955 )	649,020
OTHER EXPENSE - NET	27,267	5,880	79,137	2,913
NET INCOME (LOSS) BEFORE INCOME TAXES	240,817	156,520	(1,085,092 )	646,107
PROVISION (BENEFIT) FOR INCOME TAXES	118,980	81,381	(412,409 )	293,109
NET INCOME (LOSS)	\$121,837	\$75,139	\$(672,683 )	\$352,998
INCOME (LOSS) PER COMMON SHARE:				
BASIC	\$0.01	\$0.00	\$(0.04 )	\$0.02
DILUTED	\$0.01	\$0.00	\$(0.04 )	\$0.02

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,	
	2016	2015
<b>CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss)	\$(672,683 )	\$352,998
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Depreciation and amortization	363,634	338,826
Share-based compensation expense	432,612	223,273
Deferred rent	27,454	22,301
Deferred income taxes	(434,333 )	216,922
Provision for doubtful accounts	(8,788 )	4,912
Inventory reserves	221,369	35,599
Changes in assets and liabilities:		
Accounts receivable	(176,019 )	(436,464 )
Inventories	(1,603,381)	(210,909 )
Prepaid expenses and other assets	(14,162 )	568,319
Accounts payable	1,091,071	170,509
Accrued expenses and other current liabilities	30,818	(767,557 )
Net cash (used) provided by operating activities	(742,408 )	518,729
<b>CASH FLOWS (USED) BY INVESTING ACTIVITIES</b>		
Capital expenditures	(715,128 )	(371,718 )
<b>CASH FLOWS (USED) BY FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	—	23,400
Repayments of equipment leases payable	(101,296 )	(115,827 )
Repurchase of common stock - 42,995 shares	(65,468 )	—
Net cash (used) by financing activities	(166,764 )	(92,427 )
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,624,300)</b>	<b>54,584</b>
Cash and cash equivalents, at beginning of period	9,726,007	10,723,513
<b>CASH AND CASH EQUIVALENTS, AT END OF PERIOD</b>	<b>\$8,101,707</b>	<b>\$10,778,097</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the period for income taxes	\$67,438	\$63,762
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		

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Capital expenditures	\$(41,904	) \$—
Equipment leases payable	\$41,904	\$—

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, 2015	29,627,891	\$296,279	\$ 39,865,331	\$13,500,853	\$(20,758,012 )	\$32,904,451
Net (loss)	—	—	—	(672,683 )	—	(672,683 )
Stock issued under equity compensation plan	128,333	1,283	(1,283 )	—	—	—
Share-based compensation expense	—	—	432,612	—	—	432,612
Repurchase of treasury stock	—	—	—	—	(65,468 )	(65,468 )
Balances at September 30, 2016	29,756,224	\$297,562	\$ 40,296,660	\$12,828,170	\$(20,823,480 )	\$32,598,912

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, 2016, the condensed consolidated statements of operations for the three and nine-month periods ended September 30, 2016 and 2015, the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2015, and the condensed consolidated statement of shareholders' equity for the nine-month period ended September 30, 2016 have been prepared by the Company (as defined below) without audit. The condensed consolidated financial statements include the accounts of Wireless Telecom Group, Inc., which operates one of its product lines under the trade name Noisecom, Inc. ("Noisecom"), and its wholly-owned subsidiaries Boonton Electronics Corporation ("Boonton"), Microlab/FXR ("Microlab"), WTG Foreign Sales Corporation and NC Mahwah, Inc., which are collectively referred to herein as, the "Company". All intercompany transactions and balances have been eliminated in consolidation.

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

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

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

The results of operations for the three and nine-month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

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

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

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

For the three and nine-months ended September 30, 2016, one customer accounted for approximately 11% and 10%, respectively, of the Company's consolidated revenues. For the three and nine-months ended September 30, 2015, no customer accounted for 10% or more of the Company's consolidated revenues. At September 30, 2016, one customer represented approximately 15% of the Company's gross accounts receivable. At December 31, 2015, no customer represented 10% or more of the Company's gross accounts receivable.

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

**WIRELESS TELECOM GROUP, INC.**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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

The Company considers all highly liquid investments 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.

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 August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, “*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 is in the process of evaluating the impact of the adoption of ASU 2016-15 on its consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02 “*Leases*”, which creates new accounting and reporting guidelines for leasing arrangements. The new standard will require organizations that lease assets to recognize assets and liabilities on the balance sheet related to the rights and obligations created by those leases, regardless of whether they

are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a finance or operating lease. The standard will also require new disclosure to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The new standard will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, with early application permitted. The new standard is to be applied using a modified retrospective approach. The Company is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "*Simplifying the Measurement of Inventory.*" ASU 2015-11 applies to inventory that is measured using first-in, first-out