

2018 ANNUAL REPORT

Message from the CEO

To our Shareholders,

2018 was our second straight year of revenue growth and improving profitability as we continue to advance our mission of enabling the development, testing, and deployment of wireless communications.

The results we achieved were built on our multi-year strategy launched 2 years ago to transform the Company for growth and improve profitability. This required organic initiatives focused on lean operations, a refreshed product strategy, an improved sales strategy and a focus on improving a culture of high performing people and operations. This also included inorganic investments to expand our product offerings aligned to long-term investment trends in wireless communications.

In addition to a second year of revenue growth, we demonstrated operating leverage by improving our operating income, net income and non-GAAP Adjusted EBITDA. We have also made significant progress launching new products and innovative solution designs which will be the foundation for growth for years ahead.

I continue to remain optimistic about our position in the markets and alignment to long-term investments into 5G deployment, and the resulting new services and applications which will increase the demand for innovative development, testing, and deployment of wireless communication.

Continued Revenue Growth

2018 revenue increased 15% over 2017, a second straight year of organic growth following the successful CommAgility acquisition

The Company reported 2018 revenue growth of 14.6%, which included segment growth in both the Embedded Solutions and Test & Measurement segments. While our Network Solutions segment declined 3.4% in 2018, reflecting some lower carrier spending for in-building wireless deployments, we believe we are well positioned in this very large and dynamic market where our solution agility and the product development success in 2018 will drive growth over future years.

We are very pleased with our Embedded Solutions segment, which reflects the success of the CommAgility acquisition. We realized significant growth of 69% in 2018, partially due to a full year of ownership, and primarily due to growth in revenues of our digital signal processing cards used in wireless test systems. The segment's hardware and software solutions enable new market applications for our common customer segments and accelerates our long-term growth opportunity delivering unique, differentiated solutions.

We also generated organic revenue growth of 6.2% in our Test & Measurement segment, driven by increased sales of noise generation components and modules. We continue to invest in this segment to advance our leadership in sophisticated telecommunication and defense applications, including radar and satellite communications for the military, large defense contractors, and the government.

Together, these revenue growth accomplishments reflect our investments and progress in how we partnered with our customers to bring innovative solutions to the markets. In 2019, we will continue to strive for significant product and sales channel enhancements to better serve our global customers and address the demands of wireless communication growth, network densification, and the transition to 5G.

Two Years of Profitability Improvements

Healthy gross margins, improving operating margins, and improving non-GAAP Adjusted EBITDA margins

2018 results reflected successfully on our focus on operational excellence and margin expansion. Revenue growth of 15% and our attractive and improved gross margins of 45% allowed us to report improving positive operating income and net income, while meaningfully improving non-GAAP Adjusted EBITDA. Our success implementing lean operational improvements and longer-term improvements to our product and sales strategy will have lasting and continued benefits creating future opportunities for continued operating leverage while driving revenue growth.

Looking ahead, we believe we are well positioned to realize greater operational leverage and scale with continued revenue growth and we will continue to work on operating profitability improvements in 2019.

Building Our Future

Organic and inorganic investments

Customer responsiveness, peak performance, and growth orientation are the values which guide our direction and strategy. Wireless connectivity growth continues to play a huge role impacting just about every industry and business, and is expected to drive long-term demands for increased testing, private LTE networks and network densification. We are well positioned to meet these demands with a broad portfolio of solutions that addresses multiple customer segments. Our deep customer relationships, solution centric approach, and strong brands will also continue to drive innovation and customer success.

We expect to continue to invest organically in R&D, product roadmap enhancements and sales expansion efforts to build a foundation for long-term growth. We also expect to continue to evaluate strategic acquisition opportunities which drive revenue, accretive margins, and operating leverage. We will also continue to maintain our focus on operational excellence and profitability expansion, which will help drive shareholder value.

We are dedicated to our vision of enabling the wireless future. Thank you for your continued support of Wireless Telecom Group.

Timothy Whelan, Chief Executive Officer



PART I

Item 1. Business

Overview

Wireless Telecom Group, Inc., a New Jersey corporation, together with its subsidiaries (“we”, “us”, “our” or the “Company”), specializes in the design and manufacture of advanced radio frequency and microwave devices which enable the development, testing and deployment of wireless technology. The Company provides unique, highly customized and configured solutions which drive innovation across a wide range of traditional and emerging wireless technologies.

Wireless Telecom Group is comprised of four brands – Microlab, Boonton, Noisecom, and CommAgility – organized into three reporting segments – Network Solutions, Test and Measurement and Embedded Solutions.

Our customers include wireless carriers, defense contractors, military and government agencies, satellite communication companies, network equipment manufacturers, tower companies, semiconductor device manufacturers and system integrators.

Our products include components, modules, systems and instruments used across the lifecycle of wireless connectivity and communication development, deployment and testing. Our customers use these products in relation to commercial infrastructure development, the expansion and upgrade of distributed antenna systems, deployment of small cell technology and private long term evolution (“LTE”) networks. In addition, the Company’s products are used in the development and testing of satellite communication systems, radar systems, semiconductor devices, automotive electronics and avionics.

The consolidated financial statements include the accounts of Wireless Telecom Group, Inc., doing business as, and operating under the trade name Noise Com, Inc., and its wholly owned subsidiaries including Boonton Electronics Corporation, Microlab/FXR, Wireless Telecommunications Ltd. and CommAgility Limited. The corporate website address is www.wirelesstelecomgroup.com. Noise Com, Inc., Boonton Electronics Corporation, Microlab/FXR and CommAgility Limited Ltd. are hereinafter referred to as “Noisecom”, “Boonton”, “Microlab” and “CommAgility”, respectively.

Market

Since the Company’s incorporation in the State of New Jersey in 1985, it has been primarily engaged in supplying noise source components and instruments, electronic testing and measurement instruments, and radio frequency (“RF”) passive components to customers. With the CommAgility acquisition in February of 2017 the Company expanded to include the delivery of signal processing modules and the delivery, implementation and configuration of LTE physical layer and stack software. Approximately 90% and 85% of the Company’s consolidated revenues in fiscal years 2018 and 2017, respectively, were derived from commercial customers. The remaining consolidated revenues (approximately 10% and 15% in 2018 and 2017, respectively) were comprised of revenues from the United States government (particularly the armed forces) and prime defense contractors.

Products

Our Network Solutions segment is comprised of our **Microlab** business.

Microlab designs and manufactures a wide selection of RF components and integrated subsystems for signal conditioning and distribution in the wireless infrastructure markets. Microlab products are used in small cell deployments, distributed antenna systems, in-building wireless solutions and cellular base-stations. Microlab is a leader in low passive intermodulation (“PIM”) radio frequency and microwave products for these purposes.

Microlab components possess unique capabilities in the area of broadband frequency coverage, minimal loss and low passive intermodulation. High performance components – such as power combiners, directional couplers, attenuators, terminators and filters – are developed for broadband applications to support commercial in-building wireless networks, public safety networks, rail and transportation deployments, corrosive salt/fog environment build-outs and global positioning system (“GPS”) signal distribution.

Along with components and integrated subsystems, the Microlab portfolio also includes system performance monitoring and timing synchronization solutions. These products include a portfolio of GPS digital repeaters and splitters for cellular timing synchronization as well as a passive systems monitor for real-time diagnostics of an in-building distributed antenna system.

Our Test and Measurement segment is comprised of the **Boonton** and **Noisecom** brands.

Boonton

Boonton is a leader in high performance RF and microwave test equipment for radar, avionics, electronic warfare, electromagnetic interference compatibility, and satellite and wireless communications applications. Used across the semiconductor, military, aerospace, medical and commercial communications industries, Boonton products enable a wide range of radio frequency power measurements and signal analysis for radio frequency product design, production, maintenance and testing.

Boonton designs and produces electronic test and measurement equipment including power meters, power sensors, voltmeters, and audio and modulation analyzers. These products measure and analyze the performance of radio frequency and microwave systems used by the military and commercial sectors. Boonton products are also used to test terrestrial and satellite communications, radar and telemetry. Certain power meter products are designed for measuring signals based on wideband modulation formats, allowing a variety of measurements to be made, including maximum power, peak power, average power and minimum power.

Noisecom

Noisecom is a leader in radio frequency and microwave noise sources for signal jamming, system impairment, reference level comparison and calibration, receiver robustness testing, and jitter injection. Noisecom designs and produces noise generation instruments, calibrated noise sources, noise modules and diodes. Noisecom noise products are used to provide wide band interference and test signals for sophisticated commercial communication and defense applications, and as a stable reference standard for advanced systems found in radar applications and satellite communications. Noise source products:

- simulate challenging signaling conditions in data and radio frequency transmission systems, such as jitter testing for high speed data lines used in modern computer architecture;
- send signals for noise measurement to allow wireless receivers and transmitters to be optimized;
- are used for jamming radio frequency signals, blocking or disturbing enemy radar and other communications and insulating and protecting friendly communications; and
- comprise components in radar systems as part of built-in test equipment to continuously monitor the radar receiver and in-satellite communications where the use of back-up receivers are becoming more common.

Electronic noise generation devices from Noisecom come in a variety of product types including noise diodes, built-in-test modules (“BITE”), calibrated noise sources, jitter sources, cryogenic noise standards and programmable instruments. Calibrated noise sources are available from audio to millimeter wavelengths in coaxial or waveguide modules. Programmable instruments are highly configurable and able to generate precise carrier-to-noise, signal-to-noise and broadband white noise levels. Noisecom products are customizable to meet the unique needs of challenging applications and can be designed for high power, high crest factor, and specific filtering.

Our Embedded Solutions segment consists of our subsidiary **CommAgility**.

CommAgility develops embedded signal processing and radio frequency modules, as well as LTE physical layer and stack software, for 4G and emerging 5G mobile network and related applications. Combining the latest digital signal processing (“DSP”), field programmable gate array (“FPGA”) and radio frequency technologies with advanced, industry-leading software, CommAgility provides compact, powerful and reliable products for integration into high performance test equipment, specialized radio and intelligence systems, and R&D demonstrators.

CommAgility engineers work closely with customers to provide hardware and software solutions for the most demanding real-time signal processing, test and control challenges in wireless baseband, semiconductor processing, medical imaging, radar and sonar applications. Additionally, CommAgility licenses, implements and customizes LTE physical layer and stack software for private LTE networks supporting satellite communications, the military and aerospace industries, offering our customers unique implementation capabilities built on the LTE standard.

Marketing and Sales

The Company's products are sold globally through our in-house sales force, industry-specific manufacturers' representatives and through a network of authorized distributors. The Company promotes the sale of its products through its website, product literature, published articles, technical conference presentations, direct mailings, trade advertisements and trade show exhibitions.

The Company's relationships with its manufacturers' representatives and distributors are governed by written contracts that either run for one-year renewable periods terminable by either party on 30 to 60 days prior notice or have indefinite lives terminable by either party on 30 to 60 days prior notice. The contracts generally provide for territorial and product representation.

Customers

The Company currently sells the majority of its products to telecommunications service providers, systems integrators, neutral host operators, distributors, large defense contractors, global technology and services companies and the U.S. and foreign governments. For the years ended December 31, 2018 and 2017 one customer, Aeroflex Limited, accounted for 22.0% and 10.4% of total consolidated revenues, respectively.

Competition

We compete against many companies which utilize similar technology, some of which are larger and have substantially greater resources and expertise in financial, technical and marketing areas than us. Some of these companies include Keysight Technologies, Inc., Rohde & Schwarz GmbH & Co. KG, Anritsu Corporation, Kathrein, Commscope, Westell Technologies, Inc, Qualcomm and Azcom.

The Company believes its competitive strengths include:

- long-standing relationships with a core group of diverse customers in the wireless, telecommunication, satellite, military, aerospace, semiconductor and medical industries
- agility in providing highly customized and configured solutions to the customer's technical specifications
- a long tradition of developing highly engineered wireless solutions through our strong design capabilities and technology know-how
- long-standing, well-established sales channels and relationships which allow us to bring new solutions to market quickly
- diversification across multiple customer segments, providing solutions to enable development, testing and deployment
- being an approved vendor at all four of the major U.S. carriers with hundreds of approved Network Solutions products
- an embedded base of products and instruments in our Test & Measurement segment which leads to recurring purchases of our products

Backlog

The Company's consolidated backlog of firm orders to be shipped in the next twelve months was approximately \$8.2 million at December 31, 2018, compared to approximately \$9.9 million at December 31, 2017. It is anticipated that the majority of the backlog orders at December 31, 2018 will be filled during the current year. The stated backlog is not necessarily indicative of Company revenues for any future period nor is a backlog any assurance that the Company will realize a profit from the orders.

Inventory, Supplies and Manufacturing

The Company purchases components, devices and subassemblies from a wide variety of sources. The Company's procurement policy requires maintaining adequate levels of raw materials inventory to minimize the Company's production lead times with third-party suppliers and to improve the Company's capacity to expedite fulfillment of customer orders. Although the procurement team focuses its efforts to work closely with its suppliers to avoid adverse effects of shortages or delays in delivery of inventories, delays in the future may have an adverse impact on the Company's operations. For the year ended December 31, 2018, two suppliers accounted for 15% and 13%, respectively, of total consolidated inventory purchases. For the year ended December 31, 2017, no one single third-party supplier accounted for 10% or more of the Company's total consolidated inventory purchases.

The Company is not party to any long term contracts regarding the deliveries of its supplies and components. It generally purchases such items pursuant to written purchase orders of both the individual and blanket variety. Blanket purchase orders usually cover the purchase of a larger amount of items at fixed prices for delivery and payment on specific dates.

For Boonton and Noisecom products, the Company develops, designs, manufactures, assembles, calibrates and tests the products at our facility in Parsippany, New Jersey. Testing of Boonton and Noisecom products is generally accomplished at the end of the manufacturing process and is performed in-house, as are all quality control processes.

Approximately 49% of Microlab products are sourced from contract manufacturers based on Microlab designs or technical and quality specifications with the remainder designed and manufactured by the Company in Parsippany, New Jersey. All Microlab products are tested by the Company in Parsippany, New Jersey.

CommAgility hardware products are built by contract manufacturers to CommAgility designs, and tested either by the contract manufacturer or by CommAgility. Software products are licensed to customers through a system that allows the customer to download the software once access has been granted.

Warranty and Service

The Company typically provides one to three 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.

In cases of defective products the customer typically returns them to the Company's facility. The Company's service personnel replace or repair the defective items and ship them back to the customer. Generally, all servicing is done at the Company's facility, and the Company charges its customers a fee for those service items that are not covered by warranty. The Company typically does not offer their customers any formal written service contracts.

Product Liability Coverage

The testing of electronic communications equipment and the accurate transmission of information entail a risk of product liability to the Company. Product liability claims could be asserted against the Company by end-users of any of the Company's products. The Company maintains product liability insurance coverage and no claims have been asserted for product liability due to a defective or malfunctioning device in the past 5 years.

Intellectual Property

We believe that our intellectual property, including its methodologies, is critical to our success and competitive position. We rely on a combination of U.S. and foreign patents, copyrights, trademarks and trade secrets, as well as confidentiality agreements to establish and protect our proprietary rights. All employees are subject to the Company's policies to ensure that all of the Company's intellectual property and business information are maintained in confidence. Key employees have signed non-disclosure and non-competition agreements.

Regulation

Environmental

The Company's operations are subject to various federal, state and local environmental laws, ordinances and regulations that limit discharges into the environment, establish standards for the handling, generation, use, emission, release, discharge, treatment, storage and disposal of, or exposure to, hazardous materials, substances and waste, and require cleanup of contaminated soil and groundwater.

The New Jersey Department of Environmental Protection (the "NJDEP") conducted an investigation in 1982 concerning disposal at a facility previously leased by the Company's Boonton operations. The focus of the investigation involved certain materials formerly used by Boonton's manufacturing operations at that site and the possible effect of such disposal on the aquifer underlying the property. The disposal practices and the use of the materials in question were discontinued in 1978. The Company has cooperated with the NJDEP investigation and has diligently pursued the matter to resolve it in accordance with applicable NJDEP operating procedures. The above referenced activities were conducted by Boonton prior to our acquisition of that entity in 2000.

In 1982, Boonton and the NJDEP agreed upon a plan to correct ground water contamination at the site, located in the township of Parsippany-Troy Hills, pursuant to which wells have been installed by Boonton. 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 plan, there will be limited and reduced monitoring and testing as long as concentrations at the site continue on a decreasing trend.

Expenditures incurred by the Company during the year ended December 31, 2018 and 2017 in connection with monitoring and testing at the site amounted to approximately \$8,000 and \$1,000, respectively. 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. Our estimate of future monitoring and testing costs is \$35,000 through 2027 when we expect final release from the NJDEP. The Company will continue to be liable under the plan, in all future years, until such time as the NJDEP releases the Company from all obligations.

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 environmental liability that may have a material adverse effect on its ongoing business operations.

Workplace Safety

The Company's operations are also governed by laws and regulations relating to workplace safety and worker health. The Company believes it is in material compliance with these laws and regulations and does not believe that future compliance with such laws and regulations will have a material adverse effect on its results of operations or financial condition.

ITAR and Export Controls

The Company is subject to International Traffic in Arms Regulation, or ITAR. ITAR requires export licenses from the U.S. Department of State for products shipped outside the U.S. that have military or strategic applications. Because some of the Company's products could have military or strategic applications, it must ensure its compliance with ITAR.

In addition, the Company is subject to the Export Administration Regulations, or EAR, which regulates the export of certain "dual use" items and technologies and, in some instances, requires a license from the U.S. Department of Commerce in connection with sales of the Company's products.

FAR and DFARS

The Company's contracts with the U.S. Government are subject to Federal Acquisition Regulations ("FAR") regarding government procurement. Further, certain of the Company's contracts are subject to the IT security requirements of Defense Federal Acquisition Regulation Supplement ("DFARS") for controlled unclassified information.

Employees

As of February 22, 2019, the Company has 156 full time employees. The Company is not subject to collective bargaining agreements in the United States or internationally and considers its relationship with its employees to be good.

Investor Information

The Company is subject to the disclosure requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Therefore, the Company files periodic reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

You can access financial and other information, including copies of our recent SEC filings, at the Company's Investor Relations page on its website. The address of the website is www.wirelesstelecomgroup.com. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports

filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Forward-Looking Statements

The statements contained in this Annual Report on Form 10-K 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 variations thereon or comparable terminology, or by discussions of strategy that involves 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 are set forth in our annual report on Form 10-K and in this document. 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. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of the Company is traded on the NYSE American under the name Wireless Telecom Group, Inc. (Symbol: WTT). On February 22, 2019, the Company had 378 stockholders of record. These stockholders of record do not include beneficial owners whose shares are held in “nominee” or “street name”.

Recent Sales of Unregistered Securities

A portion of the purchase price for the acquisition of CommAgility on February 17, 2017 was paid to the sellers through the issuance of 3,487,528 shares of the Company’s common stock. Pursuant to the Share Purchase Agreement, 2,092,516 shares were forfeited during the three months ended March 31, 2018 as certain financial metrics for the year ended 2017 were not achieved. As a result of the forfeiture the final amount of shares issued to the sellers was 1,395,012 valued at \$2,399,421 based upon a 10 day volume weighted average price for the Company shares of stock. The Company relied on an exemption from registration under the Securities Act, as set forth in Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder, based upon (a) each seller’s representation that it is an “accredited investor” within the meaning of Rule 501 under the Securities Act and that the shares received by each seller were acquired for such seller’s own account, and not with a view to any distribution thereof, (b) appropriate legends were affixed to the securities, and (c) because the transaction did not involve any public offering.

Issuer Purchases of Equity Securities

The Company did not repurchase any securities during the year ended December 31, 2018.

Equity Compensation Plan Information

Set forth below is certain aggregated information with respect to the Company’s equity compensation plans.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in the previous columns)
Equity compensation plans approved by security holders	2,280,000	\$1.51	1,808,499
Equity compensation plans not approved by security holders	-	-	-
Total	2,280,000	\$1.51	1,808,499

Item 6. Selected Financial Data

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is a global designer and manufacturer of advanced RF, microwave and millimeter wave components, modules, systems and instruments. Serving the wireless, telecommunication, satellite, military, aerospace, semiconductor and medical 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, LTE physical layer and stack software, power splitters and combiners, 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.

Key 2018 Developments and Financial Results

- Consolidated revenue increase of 15% led by the Embedded Solutions segment which had increased sales of digital signal processing hardware
- Consolidated gross profit of 46% in 2018 as compared to 42% in 2017
- Cash flow from operations of \$4.0 million in 2018 as compared to \$1.4 million in 2017
- Income before taxes of \$83 thousand in 2018 as compared to loss before taxes of \$3.2 million in 2017
- Loss on fair value of contingent consideration of \$0.6 million recorded in 2018 as compared to gain of \$0.3 million recorded in 2017. \$1.4 million contingent consideration liability included in accrued expenses and other current liabilities as of December 31, 2018
- Backlog of \$8.2 million as of December 31, 2018 as compared to \$9.9 million as of December 31, 2017

The Company presents its operations in three reportable segments: (1) Network Solutions, (2) Test and Measurement and (3) Embedded Solutions. The Network Solutions segment is comprised primarily of the operations of Microlab. The Test and Measurement segment is comprised of the operations of Boonton and Noisecom. The Embedded Solutions segment is comprised of CommAgility.

The financial information presented herein includes: (i) Consolidated Balance Sheets as of December 31, 2018 and 2017; (ii) Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2018 and 2017; (iii) Consolidated Statement of Changes in Shareholders’ Equity for the years ended December 31, 2018 and 2017; and (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017.

Critical Accounting Policies

Management’s discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for each period. 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 our 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. Estimates and assumptions are made by management to assess the overall likelihood that an accounting estimate or assumption may require adjustment. It is reasonably possible that these estimates may ultimately differ materially from actual results. See Note 1 in the Notes to the Consolidated Financial Statements included elsewhere on Form 10-K for a description of all of our significant accounting policies.

Revenue Recognition

Effective 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. Topic 606 requires the Company to identify the performance obligations in our revenue arrangements – that is, those promised goods and services (or bundles of promised goods or services) that are distinct – and allocate the transaction price of the revenue arrangement to those performance obligations on the basis of estimated standalone selling prices (“SSP’s”).

Sales of hardware which include sales of radio frequency solutions in the Network Solutions segment, digital signal processing hardware in the Embedded Solutions segment and power meters and analyzers and noise generators and components in the Test and Measurement segment generally consist of one performance obligation which is satisfied upon shipment to the customer. When contract terms require transfer of control upon delivery at a customer's location, revenue is recognized on the date of delivery. Sales of hardware to distributors that include a limited right of return are recorded net of expected returns.

Sale of software licenses in the Embedded Solutions segment may involve multiple performance obligations including multiple software releases and consultancy services. In these cases transaction price is allocated to each distinct performance obligation on the basis of SSP and revenue is recognized when the distinct performance obligation is satisfied. The company determines performance obligations and SSP's in arrangements with multiple performance obligations in accordance with Topic 606 which requires significant judgement.

Services arrangements involving repairs and calibrations in the Company's Test and Measurement segment are generally considered a single performance obligation and revenue is recognized as the services are rendered.

Certain software arrangements in the Embedded Solutions segment may involve the transfer of software along with significant customization services. In these cases the customization services and software licenses are combined as one distinct performance obligation and revenue is recognized over time as the project is completed. The duration of these performance obligations are typically one year or less.

Business Combinations

Business combinations are accounted under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations" which requires assets acquired and liabilities assumed be recorded at their fair values on the acquisition date. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The fair values of the assets acquired and liabilities assumed are determined based upon management's valuation and involves making significant estimates and assumptions based on facts and circumstances that existed as of the acquisition date. We use a measurement period following the acquisition date to gather information that existed as of the acquisition date that is needed to determine the fair value of the assets acquired and liabilities assumed. The measurement period ends once all information is obtained, but no later than one year from the acquisition date.

Valuation of 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 evaluated for impairment annually by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. After assessing the totality of events or circumstances, if we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform additional quantitative tests to determine the magnitude of any impairment.

As of December 31, 2018 the Company's consolidated goodwill balance of \$9.8 million is comprised of \$1.4 million related to the Microlab reporting unit and \$8.4 million related to the CommAgility reporting unit. As of December 31, 2017 the Company's consolidated goodwill balance of \$10.3 million was comprised of \$1.4 million related to the Microlab reporting unit and \$8.9 million related to the CommAgility reporting unit. Management's qualitative assessment performed in the fourth quarters of 2018 and 2017 did not indicate any impairment of goodwill.

Intangible and Long-lived Assets

Intangible assets include patents, non-competition agreements, customer relationships and trademarks. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from five to seven years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell. The estimated useful lives of intangible and long-lived assets are based on many factors including assumptions regarding the effects of obsolescence, demand, competition and other economic factors, expectations regarding the future use of the asset, and our historical experience with similar assets. The assumptions used to determine the estimated useful lives could change due to numerous factors including product demand,

market conditions, technological developments, economic conditions and competition. Intangible assets determined to have indefinite useful lives are not amortized but are tested for impairment annually and more frequently if events occur or circumstances change that indicate an asset may be impaired.

Income taxes

The Company records deferred taxes in accordance with 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.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("TCJA"), which instituted fundamental changes to the taxation of multinational corporations, including a reduction the U.S. corporate income tax rate to 21% beginning in 2018. As a result, in 2017, the Company re-measured its U.S. deferred tax assets at the new lower corporate income tax rate. The TCJA also requires a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of the Company's foreign subsidiary as of December 31, 2017. To determine the amount of this transition tax, the Company must determine the amount of earnings generated since inception by the relevant foreign subsidiary, as well as the amount of non-U.S. income taxes paid on such earnings, in addition to potentially other factors. See note 12 to the Consolidated Financial Statements for a discussion of the impact the TCJA.

Uncertain tax position

Under ASC 740, the Company must recognize and disclose uncertain tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The amounts recognized in the financial statements attributable to such position, if any, are recorded if there is 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 jurisdictions where it is required to file income tax returns. As of December 31, 2018 and 2017, the Company has identified its federal tax return and its state tax return in New Jersey as "major" tax jurisdictions, as defined in ASC 740, in which it is required to file income tax returns. Additionally, as a result of the CommAgility acquisition on February 17, 2017 the Company has identified the United Kingdom as "major" tax jurisdiction as of December 31, 2018 and 2017. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in its 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 consolidated financial statements, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740 during the years ended December 31, 2018 and 2017, 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 the next twelve months.

Stock-based compensation

The Company follows the provisions of ASC 718, "Compensation - Stock Compensation" which requires that compensation expense be recognized based on the fair value of the stock awards. The fair value of the stock awards is equal to the fair value of the Company's stock on the date of grant. The fair value of options at the date of grant is estimated using the Black-Scholes option pricing model. When options are granted, the Company takes into consideration guidance under ASC 718 and SEC Staff Accounting Bulletin No. 107 (SAB 107) when determining 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 daily price observations over an observation period that approximates the expected life of the options. 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 Company accounts for forfeitures when they occur.

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.

Inventories and Inventory Valuation

Inventories are stated at the lower of cost (average cost) or net realizable value. The Company reviews inventory for excess and obsolescence based on best estimates of future demand, product lifecycle status and product development plans.

Allowances 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, our customer's payment history and aging of its accounts receivable balance.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted cash flows resulting from the use of the assets and their eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold for sale is based on the fair value of the assets. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Warranties

The Company generally offers standard warranties against product defects. We estimate future warranty costs to be incurred based on historical warranty claims experience including estimates of material and service costs over the warranty period.

Comparison of the results of operations for the year ended December 31, 2018 with the year ended December 31, 2017

Net Revenues (in thousands)

	Twelve months ended December 31						
	Revenue		% of Revenue		Change		
	2018	2017	2018	2017	Amount	Pct.	
Network Solutions	\$ 22,275	\$ 23,052	42.2%	50.0%	\$ (777)	-3.4%	
Test and Measurement	14,212	13,380	26.9%	29.0%	832	6.2%	
Embedded Solutions	16,301	9,646	30.9%	21.0%	6,655	69.0%	
Total Net Revenues	\$ 52,788	\$ 46,078	100.0%	100.0%	\$ 6,710	14.6%	

Net consolidated revenues for the year ended December 31, 2018 were \$52.8 million as compared to \$46.1 million for the year ended December 31, 2017, an increase of \$6.7 million or 14.6%. Embedded Solutions segment revenue increased \$6.7 million primarily due to increased sales of digital processing hardware that is used in wireless network test equipment. Test and Measurement segment revenue increased \$0.8 million or 6.2% due primarily to increased sales of noise generation components and modules to customers in the satellite industry and for use in optical applications offset by lower military and government orders. Network Solutions segment revenue decreased \$0.8 million or 3.4% due primarily to the use of highly competitive pricing and decreases in certain passive RF component demand, which were only slightly offset by increased sales of active components and customized integrated solutions.

Gross Profit (in thousands)

	Twelve months ended December 31					
	Gross Profit		Gross Profit %		Change	
	2018	2017	2018	2017	Amount	Pct.
Network Solutions	\$ 9,756	\$ 9,064	43.8%	39.3%	\$ 692	7.6%
Test and Measurement	7,018	5,854	49.4%	43.8%	1,164	19.9%
Embedded Solutions	7,393	4,343	45.4%	45.0%	3,050	70.2%
Total Gross Profit	\$ 24,167	\$ 19,261	45.8%	41.8%	\$ 4,906	25.5%

Gross Profit increased by \$4.9 million from 41.8% of revenue to 45.8% of revenue due primarily to increased volumes at the Embedded Solutions segment. The increase over 2017 also reflected inventory impairment charges recorded in 2017 related to the Network Solutions segment of \$1.2 million and the Test and Measurement segment of \$0.7 million. Network Solutions gross profit as a percentage of revenue in 2018 was adversely affected by lower volumes resulting from a highly competitive pricing environment and decreases in certain passive RF component demand.

Operating Expenses (in thousands)

	Twelve months ended December 31					
	Operating Expenses		% of Revenue		Change	
	2018	2017	2018	2017	Amount	Pct.
Research and Development	\$ 4,909	\$ 4,395	9.3%	9.5%	\$ 514	11.7%
Sales and Marketing	7,595	6,960	14.4%	15.1%	635	9.1%
General and Administrative	10,306	11,027	19.5%	23.9%	(721)	-6.5%
Loss on Change in Fair Value of Contingent Consideration	578	(253)	1.1%	-0.5%	831	-328.5%
Total Operating Expenses	\$ 23,388	\$ 22,129	44.3%	48.0%	\$ 1,259	5.7%

Research and development expenses increased \$0.5 million due to the Embedded Solutions segment. Embedded Solutions segment research and development expenses increased \$0.9 million due to investments in 5G research and development, the impact of a full 12 months of expense in 2018 versus 10.5 months expense in 2017 and the unfavorable impact of foreign exchange. The increase in the Embedded Solutions segment research and development expenses was offset by a \$0.4 million decrease in research and development expenses in the Network Solutions and Test and Measurement segments due to lower third party spend.

Sales and marketing expenses increased \$0.6 million primarily due to increased headcount in the Network Solutions segment offset by lower commission expense in the Network Solutions segment due to lower volumes.

General and administrative expenses decreased \$0.7 million due to lower mergers and acquisitions expenses, and lower severance charges on executive team restructuring, offset by increased stock compensation and bonus expense. The increase also reflected the impact of a full year of CommAgility general and administrative expenses in 2018 versus 10.5 months in 2017 as well as the unfavorable impact of foreign exchange.

In 2018 the Company recorded a loss on change in fair value of contingent consideration of \$0.6 million as our estimate of the earn-out payment related to the CommAgility acquisition was increased from our original estimate recorded at the time of acquisition due to the improved financial results of the business. In 2017 the Company recorded a gain on change in fair value of contingent consideration of \$0.3 million.

Other income/expense

Other expenses increased \$39 thousand due to higher foreign exchange unrealized and realized losses on transactions denominated in currencies other than our functional currencies.

Interest Expense

Interest expense increased \$0.3 million due to a full year of borrowing under our Credit Facility versus 10.5 months in 2017 and an increase in our average borrowing rate due to an increase in Libor. Additionally, the Company recorded higher interest expense related to the CommAgility contingent consideration liability in 2018 due to increases in the liability as a result of higher financial results of the business than previously estimated.

Tax

The Company recorded tax expense of \$48,000 in 2018 due primarily to deferred federal taxes in the U.S. offset by current and deferred tax benefits related to our foreign jurisdictions due to a research and development tax deduction and the reduction of the deferred tax liability. Tax expense for the year ended December 31, 2017 was \$1.2 million primarily as a result of reduction of our net deferred tax asset largely driven by U.S. tax rate reductions due to the TCJA enacted in December 2017. The tax rate reductions as a result of TCJA resulted in a \$2.5 million reduction in our U.S. deferred tax assets for the year ended December 31, 2017.

Net Loss

For the year ended December 31, 2018 net income was \$35,000 or \$0.00 per share as compared to a net loss of \$4.5 million or \$0.22 loss per share for the year ended December 31, 2017. The increase in net income is due to an increase in income before taxes due to the factors discussed above.

Liquidity and Capital Resources

As disclosed in Note 4 to the Consolidated Financial Statements, on February 16, 2017 the Company entered into a Credit Facility which provided for a term loan in the aggregate principal amount of \$0.8 million (the “Term Loan”) and an asset based revolving loan (the “Revolver”), which is subject to a Borrowing Base Calculation (as defined in the Credit Facility) of up to a maximum availability of \$9 million. The proceeds of the Term Loan and Revolver were used to finance the acquisition of CommAgility. We expect our existing cash balance, cash generated by operations and borrowings available under our Credit Facility to be our primary sources of short-term liquidity, and we believe these sources will be sufficient to meet our liquidity needs for at least the next twelve months. As disclosed in Note 15 to the Consolidated Financial Statements, on February 26, 2019 the Company entered into Amendment No. 3 to the Credit Facility which extended the term of the Revolver to March 31, 2020. During the first quarter of 2019 the Company will pay the final deferred purchase price and contingent consideration amounts due related to the CommAgility acquisition which are approximately \$0.4 million and \$1.4 million, respectively, as of December 31, 2018. Our ability to meet our cash requirements will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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 operating loss carryforwards and as a result will increase the Company’s liquidity as cash needed to pay federal and state income taxes will be substantially reduced. Additionally, CommAgility benefits from a research and development deduction which significantly reduces the cash needed to pay taxes in the UK.

Cash and cash equivalents increased from \$2.5 million at December 31, 2017 to \$5.0 million at December 31, 2018 primarily due to cash generated from operations and borrowings under our Credit Facility, offset only in part by capital expenditures and deferred purchase price payments related to the CommAgility acquisition. As of December 31, 2018, substantially all of our cash and cash equivalents are held outside the United States. The asset based revolver under our Credit Facility is secured by the Company’s U.S. assets. Income taxes have been provided on foreign earnings such that there would be no significant income tax expense to repatriate the portion of this cash that is not required to meet operational needs of our international subsidiary.

Operating Activities

Cash provided by operating activities was \$4.0 million for the year ended December 31, 2018 as compared to cash provided by operating activities of \$1.4 million for the year ended December 31, 2017. The improvement was primarily due to higher operating income across all of our segments.

Investing Activities

Cash used by investing activities was \$1.7 million for the year ended December 31, 2018 and was primarily comprised of cash used for capital expenditures of \$0.9 million and payment of deferred purchase price of \$0.8 million related to the CommAgility acquisition. For the year ended December 31, 2017 cash used by investing activities was \$10.4 million and was primarily related to cash used for the CommAgility acquisition of \$9.4 million and capital expenditures of \$0.9 million.

Financing Activities

Cash provided by financing activities was \$0.5 million for the year ended December 31, 2018 as compared to \$2.0 million for the year ended December 31, 2017. During the year ended December 31, 2018, net borrowings under the Credit Facility were \$0.3 million and proceeds from stock option exercises were \$0.3 million which were both partially offset by Term Loan principal payments of \$0.2 million. During the year ended December 31, 2017 the Company received net proceeds of \$1.2 million from the Revolver and received \$0.8 million from the Term Loan. Principal repayments of the Term Loan during the year ended December 30, 2017 were \$0.1 million. Additionally, the Company paid \$0.2 million in debt issuance costs in 2017 associated with the Credit Facility.

As of December 31, 2018, \$1.5 million was outstanding on the Revolver and \$0.5 million was outstanding under the Term Loan. As of December 31, 2018 and 2017, and the date hereof, the Company is in compliance with the covenants of the Credit Facility.

The Company may pursue strategic opportunities, including potential acquisitions, mergers, divestitures or other activities, which may require significant use of the Company's capital resources. The Company may incur costs as a result of such activities and such activities may affect the Company's liquidity in future periods. In order to fund such activities, the Company may need to incur additional debt or issue additional securities if market conditions are favorable. However, there can be no certainty that such funding will be available in needed quantities on terms favorable to the Company or at all.

On August 27, 2018 the Company filed a shelf registration statement on Form S-3 which was declared effective on September 17, 2018. The Form S-3 will permit the Company to issue and sell, from time to time, up to \$40 million in aggregate value of shares of its common stock through one or more methods of distribution, subject to applicable SEC limits on the value of securities that the Company, as a smaller reporting company, may sell during an applicable period, market conditions, and the Company's capital desires and needs. The Company has no current plans to offer any common stock under the shelf registration statement.

The terms of any offering of the Company's common stock, and the intended use of the net proceeds resulting therefrom, will be established at the times of the offerings and will be described in prospectus supplements filed with the SEC at the times of the offerings. The shelf registration statement is intended to provide financial flexibility to access capital in a competitive and expeditious manner when market conditions are appropriate.

The Company believes that its financial resources from working capital and availability under the Credit Facility are adequate to meet its current needs. The Company expects the cash flow of CommAgility to fund the deferred purchase price and contingent consideration liabilities related to the CommAgility acquisition. However, should current global economic conditions deteriorate, additional working capital funding may be required which may be difficult to obtain due to restrictive credit markets and covenants of our Credit Facility.

Purchase obligations consist of inventory that arises in the normal course of business operations. Future obligations and commitments as of December 31, 2018 consisted of the following:

Table of Contractual Obligations
(in thousands)

	<u>Payments by Year</u>					
	Total	2019	2020	2021	2022	2023
Facility Leases	\$ 2,134	\$ 539	\$ 510	\$ 474	\$ 488	\$ 123
Operating and Equipment Leases	171	54	54	54	9	-
Purchase Obligations	7,860	7,860	-	-	-	-
Contingent Consideration Payment	1,442	1,442	-	-	-	-
Deferred Purchase Price Payments	852	852	-	-	-	-
	<u>\$ 12,459</u>	<u>\$ 10,747</u>	<u>\$ 564</u>	<u>\$ 528</u>	<u>\$ 497</u>	<u>\$ 123</u>

Off-Balance Sheet Arrangements

Other than contractual obligations incurred in the normal course of business, the Company does not have any off-balance sheet arrangements.

Effects of Inflation and Changing Prices

The Company does not anticipate that inflation or other expected changes in prices will significantly impact its business.

Recent Accounting Pronouncements Affecting the Company

A discussion of recent accounting pronouncements is included in Note 1 to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	17
Consolidated Financial Statements:	
Balance Sheets as of December 31, 2018 and 2017	18
Statements of Operations and Comprehensive Income/(Loss) for the Two Years Ended December 31, 2018	19
Statement of Changes in Shareholders' Equity for the Two Years Ended December 31, 2018	20
Statements of Cash Flows for the Two Years Ended December 31, 2018	21
Notes to Consolidated Financial Statements	22

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Wireless Telecom Group, Inc.

To the Board of Directors and Shareholders
Wireless Telecom Group, Inc.
Parsippany, NJ

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Wireless Telecom Group, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PKF O’Connor Davies, LLP

We have served as the Company’s auditor since 2006.

New York, New York
March 12, 2019

CONSOLIDATED BALANCE SHEETS**Wireless Telecom Group, Inc.****(In thousands, except number of shares and par value)**

	December 31 2018	December 31 2017
CURRENT ASSETS		
Cash & Cash Equivalents	\$ 5,015	\$ 2,458
Accounts Receivable - net of reserves of \$44 and \$44, respectively	8,638	9,041
Inventories - net of reserves of \$1,910 and \$1,856, respectively	6,884	6,526
Prepaid Expenses and Other Current Assets	1,689	4,733
TOTAL CURRENT ASSETS	22,226	22,758
PROPERTY PLANT AND EQUIPMENT - NET	2,578	2,730
OTHER ASSETS		
Investment in Subsidiary	-	-
Goodwill	9,778	10,260
Acquired Intangible Assets, net	3,206	4,511
Deferred Income Taxes	5,592	5,939
Other	787	723
TOTAL OTHER ASSETS	19,363	21,433
TOTAL ASSETS	\$ 44,167	\$ 46,921
CURRENT LIABILITIES		
Short Term Debt	\$ 2,016	\$ 1,335
Accounts Payable	3,252	4,109
Accrued Expenses and Other Current Liabilities	6,083	2,894
Deferred Revenue	103	629
TOTAL CURRENT LIABILITIES	11,454	8,967
LONG TERM LIABILITIES		
Long Term Debt	-	494
Other Long Term Liabilities	115	1,590
Deferred Tax Liability	616	767
TOTAL LONG TERM LIABILITIES	731	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, 34,393,252 and 33,868,252 shares issued, 21,205,251 and 22,772,167 shares outstanding	344	339
Additional Paid in Capital	48,479	47,494
Retained Earnings	7,556	7,176
Treasury Stock at Cost, 13,188,601 and 11,096,085 shares, respectively	(24,509)	(20,910)
Accumulated Other Comprehensive Income	112	1,004
TOTAL SHAREHOLDERS' EQUITY	31,982	35,103
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 44,167	\$ 46,921

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)**Wireless Telecom Group, Inc.****(In thousands, except per share amounts)**

	Twelve Months Ended December 31	
	<u>2018</u>	<u>2017</u>
NET REVENUES	\$ 52,788	\$ 46,078
COST OF REVENUES	28,621	26,817
GROSS PROFIT	24,167	19,261
Operating Expenses		
Research and Development	4,909	4,395
Sales and Marketing	7,595	6,960
General and Administrative	10,306	11,027
(Gain)/Loss on Change in Fair Value of Contingent Consideration	578	(253)
Total Operating Expenses	23,388	22,129
Operating Income/(Loss)	779	(2,868)
Other Income/(Expense)	(121)	(82)
Interest Expense	(575)	(296)
Income/(Loss) before taxes	83	(3,246)
Tax Provision	48	1,247
Net Income/(Loss)	\$ 35	\$ (4,493)
Other Comprehensive Income/(Loss):		
Foreign Currency Translation Adjustments	(892)	1,004
Comprehensive Income/(Loss)	\$ (857)	\$ (3,489)
Earnings/(Loss) Per Share:		
Basic	\$ 0.00	\$ (0.22)
Diluted	\$ 0.00	\$ (0.22)
Weighted Average Shares Outstanding:		
Basic	20,858	19,984
Diluted	21,566	19,984

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.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Wireless Telecom Group, Inc.

(In thousands, except share amounts)

	Common Stock Issued	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balances at December 31, 2016	29,786,224	\$ 298	\$ 40,562	\$ 11,669	\$ (20,823)	\$ -	\$ 31,706
Net Income/(Loss)	-	-	-	(4,493)	-	-	(4,493)
Issuance of Shares in Connection with Stock Options Exercised	557,500	6	431	-	-	-	437
Share-based compensation expense	-	-	536	-	-	-	536
Issuance of shares in connection with CommAgility acquisition	3,487,528	35	5,965	-	-	-	6,000
Issuance of Restricted Stock	150,000	1	(1)	-	-	-	-
Forfeiture of Restricted Stock	(113,000)	(1)	1	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	1,004	1,004
Repurchase of Stock	-	-	-	-	(87)	-	(87)
Balances at December 31, 2017	33,868,252	\$ 339	\$ 47,494	\$ 7,176	\$ (20,910)	\$ 1,004	\$ 35,103
Adoption of Accounting Standard	-	-	-	345	-	-	345
Adjusted Opening Equity	33,868,252	\$ 339	\$ 47,494	\$ 7,521	\$ (20,910)	\$ 1,004	\$ 35,448
Net Income/(Loss)	-	-	-	35	-	-	35
Issuance of Shares in Connection with Stock Options Exercised	300,000	3	285	-	-	-	288
Issuance of Restricted Stock	225,000	2	(2)	-	-	-	-
Forfeiture of Shares Issued in Connection with CommAgility acquisition	-	-	-	-	(3,599)	-	(3,599)
Share-based Compensation Expense	-	-	702	-	-	-	702
Cumulative Translation Adjustment	-	-	-	-	-	(892)	(892)
Balances at December 31, 2018	34,393,252	\$ 344	\$ 48,479	\$ 7,556	\$ (24,509)	\$ 112	\$ 31,982

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Wireless Telecom Group, Inc.****(In thousands)**

	For the Twelve Months Ended December 31	
	<u>2018</u>	<u>2017</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net Income/(Loss)	\$ 35	\$ (4,493)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and Amortization	2,305	1,747
Amortization of Debt Issuance Fees	78	68
Share-based Compensation Expense	702	536
Deferred Rent	11	23
Deferred Income Taxes	233	1,395
Provision for Doubtful Accounts	-	33
Inventory Reserves	359	1,357
Changes in Assets and Liabilities, Net of Acquisition:		
Accounts Receivable	231	(1,456)
Inventories	(751)	1,713
Prepaid Expenses and Other Assets	(850)	(119)
Accounts Payable	(735)	(210)
Accrued Expenses and Other Liabilities	2,372	809
Net Cash Provided by Operating Activities	<u>3,990</u>	<u>1,403</u>
CASH FLOWS (USED) BY INVESTING ACTIVITIES		
Capital Expenditures	(853)	(927)
Proceeds from Asset Disposal	-	7
Acquisition of Business, Net of Cash Acquired	(805)	(9,434)
Net Cash (Used) by Investing Activities	<u>(1,658)</u>	<u>(10,354)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Revolver Borrowings	37,695	58,420
Revolver Repayments	(37,355)	(57,237)
Term Loan Borrowings	-	760
Term Loan Repayments	(152)	(114)
Debt Issuance Fees	-	(215)
Proceeds from Exercise of Stock Options	288	437
Shares Withheld for Employee Taxes	-	(87)
Net Cash Provided by Financing Activities	<u>476</u>	<u>1,964</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(251)	94
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,557	(6,893)
Cash and Cash Equivalents, at Beginning of Period	<u>2,458</u>	<u>9,351</u>
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	\$ 5,015	\$ 2,458
SUPPLEMENTAL INFORMATION:		
Cash Paid During the Period for Interest	\$ 176	\$ 125
Cash Paid During the Period for Income Taxes	\$ 41	\$ 68

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and 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 RF, microwave and millimeter wave 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 consolidated financial statements include the accounts of Wireless Telecom Group, Inc., doing business as, and operating under the trade name, Noise Com, Inc. (“Noisecom”), and its wholly owned subsidiaries including Boonton Electronics Corporation (“Boonton”), Microlab/FXR (“Microlab”), Wireless Telecommunications Ltd. and CommAgility Limited (“CommAgility”).

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. The Consolidated Financial Statements have been prepared using accounting principles generally accepted in the United States (“U.S. GAAP”) and include the results of companies acquired by the Company from the date of each acquisition. All intercompany accounts and transactions have been eliminated in consolidation.

The Company presents its operations in three reportable segments: (1) Network Solutions, (2) Test and Measurement and (3) Embedded Solutions. The Network Solutions segment is comprised primarily of the operations of Microlab. The Test and Measurement segment is comprised of the operations of Boonton and Noisecom. The Embedded Solutions segment is comprised of the operations of CommAgility.

Use of Estimates

The accompanying financial statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The most significant estimates and assumptions include management’s analysis in support of inventory valuation, accounts receivable valuation, valuation of deferred tax assets, returns reserves, warranty accruals, intangible assets, estimated fair values of stock options and vesting periods of performance-based stock options and restricted stock and estimated fair values of acquired assets and liabilities in business combinations.

Reclassification

Certain prior period amounts have been reclassified to conform with the current period presentation.

Concentrations of Credit Risk, Purchases and Fair Value

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash 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 years ended December 31, 2018 and 2017 one customer, from the Embedded Solutions segment, accounted for 22.0 % and 10.4% of the Company’s total consolidated revenues, respectively. At December 31, 2018 one customer exceeded 10% of consolidated gross accounts receivable at 32.1%. At December 31, 2017, two customers exceeded 10% of consolidated gross accounts receivable at 17.8% and 11.2%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

For the year ended December 31, 2018 two suppliers exceed 10% of consolidated inventory purchases at 15% and 13%, respectively. For the year ended December 31, 2017 no single third-party supplier accounted for 10% or more of the Company's total consolidated inventory purchases.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Estimated allowances for doubtful accounts are reviewed periodically taking into account the customer's recent payment history, the customer's current financial statements and other information regarding the customer's credit worthiness. Account balances are charged off against the allowance when it is determined the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost (average cost) or net realizable value. Net realizable value is based upon an estimated average selling price reduced by estimated costs of completion, disposal and transportation. Reductions in inventory valuation are included in cost of sales in the accompanying Consolidated Statements of Operations and Comprehensive Loss. Finished goods and work-in-process include material, labor and manufacturing expenses.

The Company reviews inventory for excess and obsolescence based on best estimates of future demand, product lifecycle status and product development plans. The Company uses historical information along with these future estimates to reduce the inventory cost basis. Subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

During the year ended 2017 the Company recorded inventory adjustments totaling \$1.9 million comprised of an increase to the Company's excess and obsolescence reserve of \$1.1 million and the write off of gross inventory of \$0.8 million. The charge was effected as a result of a review of inventory balances and net realizable value of the inventory following the launch of the Company's lean manufacturing initiative and the adoption of a strategic product plan focused on product lifecycle acceleration.

Inventory carrying value is net of inventory reserves of approximately \$1.9 million as of December 31, 2018 and 2017.

Inventories consist of (in thousands):	December 31, 2018	December 31, 2017
Raw materials	\$ 3,248	\$ 3,231
Work-in-process	557	631
Finished goods	3,079	2,664
	<u>\$ 6,884</u>	<u>\$ 6,526</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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 \$3.6 million contingent asset representing the fair value of consideration shares issued in connection with the CommAgility acquisition. Under the claw back provisions of the Share Purchase Agreement (see Note 3) the consideration shares were forfeited in March 2018 and are no longer outstanding. Accordingly, prepaid expenses and other current assets decreased by \$3.6 million from December 31, 2017. The forfeited shares are recorded as treasury stock in the consolidated statement of shareholders' equity as of December 31, 2018.

Property, Plant and Equipment

Property, plant and equipment are reflected at cost, less accumulated depreciation. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for the property, plant and equipment are:

Machinery and computer equipment	3-8 years
Furniture and fixtures	5-7 years
Transportation equipment	4 years

Leasehold improvements are amortized over the shorter of the remaining term of the lease or the estimated economic life of the improvement. Repairs and maintenance are charged to operations as incurred; renewals and betterments are capitalized.

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 evaluated for impairment annually by first performing a qualitative assessment to determine whether a quantitative goodwill test is necessary. After assessing the totality of events or circumstances, if we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform additional quantitative tests to determine the magnitude of any impairment.

The Company's goodwill balance relates to two of the Company's reporting units, Embedded Solutions and Network Solutions. Management's qualitative assessment performed in the fourth quarters of 2018 and 2017 did not indicate any impairment of goodwill as each reporting units fair value is estimated to be in excess of its carrying value.

Intangible and Long-lived Assets

Intangible assets include patents, non-competition agreements, customer relationships and trademarks. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to five years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell. The estimated useful lives of intangible and long-lived assets are based on many factors including assumptions regarding the effects of obsolescence, demand, competition and other economic factors, expectations regarding the future use of the asset, and our historical experience with similar assets. The assumptions used to determine the estimated useful lives could change due to numerous factors including product demand, market conditions, technological developments, economic conditions and competition. Intangible assets determined to have indefinite useful lives are not amortized but are tested for impairment annually and more frequently if events occur or circumstances change that indicate an asset may be impaired.

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 (See Note 3) 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. The financial targets for 2017 were not achieved therefore there was no earn-out payment made in the twelve months ended December 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 \$0.6 million. 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, and 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 the individual risk analysis of the liability. Although the 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.

During the twelve months ended December 31, 2018 the Company recorded a loss on change in fair value of contingent consideration liability of \$0.6 million due to the improved financial results at CommAgility as compared to prior estimates. As of December 31, 2018, the Company's contingent consideration liability is \$1.4 million and is recorded in accrued expenses and other current liabilities in the accompanying consolidated balance sheet. The Company will satisfy this obligation with a cash payment to the sellers of CommAgility in the first quarter of 2019. The contingent consideration liability is considered a Level 3 fair value measurement.

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 Changes in 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. The Company recognized \$0.1 million in foreign exchange transaction losses in fiscal 2017 and 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is recorded directly to a separate section of shareholders' equity in accumulated other comprehensive income and includes unrealized gains and losses excluded from the net income. These unrealized gains and losses consist of changes in foreign currency translation.

Research and Development Costs

Research and development costs are charged to operations when incurred. The amounts charged to operations for the years ended December 31, 2018 and 2017 were \$4.9 million and \$4.4 million, respectively.

Advertising Costs

Advertising expenses are charged to operations during the year in which they are incurred and aggregated \$0.1 million for the years ended December 31, 2018 and 2017.

Stock-Based Compensation

The Company follows the provisions of Accounting Standards Codification ("ASC") 718, "Compensation – Stock Compensation" which requires that compensation expense be recognized, based on the fair value of the stock awards. The fair value of the stock awards is equal to the fair value of the Company's stock on the date of grant. The fair value of options at the date of grant are estimated using the Black-Scholes option pricing model. When performance-based options are granted, the Company takes into consideration guidance under ASC 718 and SEC Staff Accounting Bulletin No. 107 (SAB 107) when determining 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 daily price observations over an observation period that approximates the expected life of the options. 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 Company accounts for forfeitures when they occur.

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 implicit service period, which is 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. If the award is forfeited because the performance condition is not satisfied, previously recognized compensation cost is reversed. Management evaluates performance conditions on a quarterly basis.

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.

Under ASC 740, the Company must recognize and disclose uncertain tax positions 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 amounts recognized in the financial statements attributable to such position, if any, are recorded if there is a greater than 50% likelihood of being realized upon the ultimate resolution of the position. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (“TCJA”), which instituted fundamental changes to the taxation of multinational corporations, including a reduction the U.S. corporate income tax rate to 21% beginning in 2018. As a result, the Company re-measured its U.S. deferred tax assets at the new lower corporate income tax rate. The TCJA also requires a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of the Company’s foreign subsidiary as of December 31, 2017. To determine the amount of this transition tax, the Company must determine the amount of earnings generated since inception by the relevant foreign subsidiary, as well as the amount of non-U.S. income taxes paid on such earnings, in addition to potentially other factors. See Note 12 for a discussion of the impact the TCJA.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net 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, the weighted average number of unvested restricted shares and the weighted-average number of restricted stock units outstanding for the period. Shares from stock options are included in the diluted earnings per share calculation only when options exercise prices are lower than the average market value of the common shares for the period presented. 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 Years Ended December 31,	
	<u>2018</u>	<u>2017</u>
Weighted average common shares outstanding	20,858,298	19,983,747
Potentially dilutive equity awards	<u>707,492</u>	<u>877,935</u>
Weighted average common shares outstanding, assuming dilution	<u>21,565,790</u>	<u>20,861,682</u>

The weighted average number of options to purchase common stock not included in diluted loss per share because the performance condition was not met in 2018 was 285,000. The weighted average number of options to purchase common stock not included in diluted loss per share in 2017, because the effects are anti-dilutive or the performance condition was not met, was 1,048,000.

Recent Accounting Pronouncements Adopted in 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 2).

Upon adoption, a cumulative effect adjustment of \$0.3 million was made and the impact resulted in an increase to the January 1, 2018 opening balance of retained earnings. 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”) Topic 605, *Revenue Recognition*, and Subtopic 985, *Software*, collectively referred to as “Topic 605”. The beginning balance of deferred revenue decreased by \$0.2 million representing amounts that were invoiced to customers and not recognized and prepaid and other current assets increased by \$0.1 million representing unbilled receivables recognized under Topic 606. Further, accounts receivable increased \$0.2 million 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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 Consolidated Statement of Operations and Comprehensive Income/(Loss) for the twelve months ended December 31, 2018 and Consolidated Balance Sheet as of December 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 (in thousands):

Twelve Months Ended December 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 Revenues	\$ 52,788	\$ 52,590	\$ 198
Operating income	779	581	198
Net income/(loss)	35	(163)	198

As of December 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 LIABILITIES			
Deferred revenue	\$ 103	\$ 608	\$ (505)
SHAREHOLDERS' EQUITY			
Retained earnings	7,556	7,051	505

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. We have adopted the requirements of the new lease standard effective January 1, 2019. We have elected the optional transition method to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

periods presented in our financial statements. The impact of adoption will be the recognition of a right-to-use asset and corresponding lease liability on the Company's Consolidated Balance Sheet in the amount of approximately \$1.8 million. Adoption of the new lease standard will not have a significant impact on the Company's Consolidated Statement of Operations and Comprehensive Income/(Loss).

On June 20, 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This ASU expands the scope of ASC Topic 718, *Compensation - Stock Compensation*, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods and services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. ASU 2018-07 supersedes ASC *Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees*. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company does not expect the adoption of this standard to have a material impact on our financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured as amortized cost. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The Company plans to adopt the standard effective January 1, 2020. We are currently in the process of evaluating the effects of this pronouncement on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. ASU 2018-13 eliminates, modifies and adds disclosure requirements for fair value measurements. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently in the process of evaluating the effects of this pronouncement on our consolidated financial statements.

NOTE 2 – 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 95% of the Company's total revenue for the twelve months ended December 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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.

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, judgment 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 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 \$0.3 million and \$0.1 million as of December 31, 2018 and 2017 (as adjusted), respectively. Deferred revenue is \$0.1 million and \$0.4 million as of December 31, 2018 and 2017 (as adjusted), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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 (in thousands).

Twelve Months Ended December 31, 2018

	Network Solutions	Test and Measurement	Embedded Solutions	Total
Total Net Revenues by Revenue Type				
Passive and Active RF Solutions	\$ 22,275	\$ -	\$ -	\$ 22,275
Noise Generators and Components	-	6,130	-	6,130
Power Meters and Analyzers	-	6,769	-	6,769
Signal Processing Hardware	-	-	12,746	12,746
Software Licenses	-	-	704	704
Services	-	1,313	2,851	4,164
Total Net Revenue	\$ 22,275	\$ 14,212	\$ 16,301	\$ 52,788

Total Net Revenues by Geographic Areas

Americas	\$ 18,871	\$ 10,223	\$ 3,755	\$ 32,849
EMEA	2,591	1,659	12,019	16,269
APAC	813	2,330	527	3,670
Total Net Revenue	\$ 22,275	\$ 14,212	\$ 16,301	\$ 52,788

Twelve Months Ended December 31, 2017

	Network Solutions	Test and Measurement	Embedded Solutions	Total
Total Net Revenues by Revenue Type				
Passive and Active RF Solutions	\$ 23,052	\$ -	\$ -	\$ 23,052
Noise Generators and Components	-	4,928	-	4,928
Power Meters and Analyzers	-	7,367	-	7,367
Signal Processing Hardware	-	-	5,828	5,828
Software Licenses	-	-	564	564
Services	-	1,085	3,254	4,339
Total Net Revenue	\$ 23,052	\$ 13,380	\$ 9,646	\$ 46,078

Total Net Revenues by Geographic Areas

Americas	\$ 19,789	\$ 9,861	\$ 3,790	\$ 33,440
EMEA	2,432	1,595	4,889	8,916
APAC	831	1,924	967	3,722
Total Net Revenue	\$ 23,052	\$ 13,380	\$ 9,646	\$ 46,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

NOTE 3 - ACQUISITION

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 of the issued shares in 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 \$11.3million in cash on acquisition date and issued 3,487,528 shares of newly issued common stock (“Consideration Shares”) with an acquisition date fair value of \$6.0 million. In addition to the acquisition date cash purchase price the sellers were paid an additional \$2.5 million in the form of deferred purchase price 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 \$1.4 million. Lastly, the sellers could have earned an additional purchase price (“contingent consideration”) if certain financial targets were met for the years ended December 31, 2017 and 2018 (See Note 1). The contingent consideration liability as of December 31, 2018 is \$1.4 million and is expected to be paid in the first quarter of 2019.

Pursuant to the claw back provision of the Share Purchase Agreement, 2,092,516 of the Consideration Shares were subject to forfeiture and return to the Company if (a) 2017 EBITDA, as defined, generated by CommAgility was less than £2.4 million; or (b) 2018 EBITDA, as defined, generated by CommAgility was less than £2.4 million (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). In March 2018 all consideration shares were forfeited as the 2017 EBITDA threshold was not achieved.

The acquisition has been accounted for under the acquisition method of accounting in accordance with ASC 805, “Business Combinations”. Accounting for acquisitions requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. During the twelve months ended December 31, 2017 the Company recorded measurement period adjustments related to the completion of the valuation of intangible assets, contingent consideration, the contingent asset associated with the equity claw back and deferred taxes. The Company incurred \$1.3 million of acquisition-related costs during the twelve months ended December 31, 2017, which is included as part of general and administrative expense in the accompanying Consolidated Statements of Operations and Comprehensive Income/(Loss). In 2017, from the acquisition date of February 17, 2017, CommAgility contributed \$9.6 million of net revenue to the Company. Various valuation techniques were used to estimate the fair value of assets acquired and the liabilities assumed which use significant unobservable inputs, or Level 3 inputs as defined by the fair value hierarchy. Using these valuation approaches requires the Company to make significant estimates and assumptions. The following table summarizes the allocation of the purchase consideration to the fair value of assets acquired and liabilities assumed at the date of acquisition including measurement period adjustments (in thousands):

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Wireless Telecom Group, Inc.**

	Amounts Recognized as of Acquisition Date	
	\$	
Cash at close	11,318	
Equity issued at close	6,000	
Completion Cash Adjustment	1,382	
Deferred Purchase Price	2,515	
Contingent Consideration	754	
Total Purchase Price	21,969	
Cash	4,567	
Accounts Receivable	2,234	
Inventory	1,085	
Intangible Assets	5,117	
Contingent Asset	3,599	
Other Assets	168	
Fixed Assets	304	
Accounts Payable	(1,174)	
Accrued Expenses	(417)	
Deferred Revenue	(639)	
Deferred Tax Liability	(835)	
Other Long Term Liabilities	(339)	
Net Assets Acquired	13,670	
Goodwill	\$	8,299

Goodwill is calculated as the excess of consideration paid over the net assets acquired and represents synergies, organic growth and other benefits that are expected to arise from integrating CommAgility into our operations. None of the goodwill recorded in this transaction is expected to be tax deductible.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

The following table summarizes the activity related to Contingent Consideration and Deferred Purchase Price for the twelve months ended December 31, 2017 and December 31, 2018 (in thousands):

	Contingent Consideration	Deferred Purchase Price
Balance at December 31, 2016	\$ -	\$ -
Fair Value At Acquisition Date	2,700	2,515
Accretion of Interest	73	-
Payment	-	(1,408)
Measurement Period Adjustment	(1,946)	-
Fair Value Adjustment	(253)	-
Foreign Currency Translation	56	123
Balance as of December 31, 2017	\$ 630	\$ 1,230
Accretion of Interest	281	-
Payment	-	(805)
Fair Value Adjustment	578	-
Foreign Currency Translation	(47)	-
Balance as of December 31, 2018	\$ 1,442	\$ 425

As of December 31, 2018, \$0.4 million of deferred purchase price and \$1.4 million of contingent consideration is included in accrued expenses and other current liabilities on the consolidated balance sheet. As of December 31, 2017, \$0.8 million of deferred purchase price is included in accrued expenses and other current liabilities on the consolidated balance sheet and \$0.6 million and \$0.5 million of contingent consideration and deferred purchase price, respectively, is included in other long term liabilities on the consolidated balance sheet.

Pro Forma Information (Unaudited)

The following unaudited pro forma information presents the Company's operations as if the CommAgility acquisition and related financing activities had occurred on January 1, 2016. The pro forma information includes the following adjustments (i) amortization of acquired definite-lived intangible assets; (ii) interest expense incurred in connection with the Credit Facility (described in further detail in Note 4) used to finance the acquisition of CommAgility; and (iii) inclusion of acquisition-related expenses in the earliest period presented. The 2017 pro forma combined statement of operations is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date and is not intended to be a projection of future results.

Pro-forma results for the year ended December 31, 2017 are presented below (in thousands, except per share amounts):

(Unaudited)	<u>2017</u>
Net Revenues	\$ 48,130
Net loss	\$ (1,843)
Basic net loss per share	\$ (0.09)
Diluted net loss per share	\$ (0.09)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

NOTE 4 - DEBT

Debt consists of the following (in thousands):

	December 31, 2018
Revolver at LIBOR Plus Margin	\$ 1,522
Term Loan at LIBOR Plus Margin	494
Total Debt	2,016
Debt Maturing within one year	(2,016)
Non-current portion of long term debt	\$ -

In connection with the acquisition of CommAgility, the Company entered into a Credit Facility with Bank of America, N.A. (the "Lender") on February 16, 2017 (the "Credit Facility"), which provided for a term loan in the aggregate principal amount of \$0.8 million (the "Term Loan") and an asset based revolving loan (the "Revolver"), which is subject to a Borrowing Base Calculation (as defined in the Credit Facility) of up to a maximum availability of \$9.0 million ("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 Credit Facility, the Company paid lender and legal fees of \$0.2 million 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 which approximates the effective interest method.

The Company must repay the Term Loan in installments of \$38,000 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 \$0.5 million in 2019. The Term Loan and Revolver are both scheduled to mature on November 16, 2019. On February 26, 2019 the Company entered into Amendment No. 3 to the Credit Facility which extends the termination date of the Revolver from November 16, 2019 to March 31, 2020.

The Term Loan and Revolver bear interest at the LIBOR rate plus a margin. The margin on the outstanding balance of the Company's Term Loan and Revolver 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 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 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 Credit Facility or (b) 1% of the Revolver Commitment Amount and Term Loan if termination occurs after the first anniversary of the Credit Facility but before the second anniversary of the Credit Facility. The Company's interest rate plus margin as of December 31, 2018 was 5.38% and 5.88% for the Revolver and Term Loan, respectively. The Company's interest rate plus margin as of December 31, 2017 was 4.38% and 4.88% for the Revolver and Term Loan, respectively.

The Credit Facility is secured by liens on substantially all of the Company's and its domestic subsidiaries' assets including a pledge of 66 1/3% of the equity interests in the Company's Foreign Subsidiaries (as defined in the Credit Facility). The 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 Credit Facility include but are not limited to: failure to pay obligations when due, breach or failure of any covenant, insolvency

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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).

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

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill consists of the following (in thousands):

	Network Solutions	Embedded Solutions	Total
Balance as of January 1, 2017	\$ 1,351	\$ -	\$ 1,351
CommAgility Acquisition	-	10,094	10,094
Measurement Period Adjustments	-	(1,795)	(1,795)
Foreign Currency Translation	-	610	610
Balance as of December 31, 2017	1,351	8,909	10,260
Foreign Currency Translation	-	(482)	(482)
Balance as of December 31, 2018	\$ 1,351	\$ 8,427	\$ 9,778

Intangible assets consist of the following (in thousands):

	December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Foreign Exchange Translation	Net Carrying Amount
Customer Relationships	\$ 2,766	\$ (1,082)	\$ 71	\$ 1,755
Patents	615	(240)	15	390
Non-Compete Agreements	1,107	(727)	41	421
Tradename	629	-	11	640
Total	\$ 5,117	\$ (2,049)	\$ 138	\$ 3,206

	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 \$1.1 million and \$0.9 million for the twelve months ended December 31, 2018 and 2017, respectively. Amortization of acquired intangible assets is included as part of general and administrative expenses in the accompanying consolidated statements of operations and comprehensive loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Wireless Telecom Group, Inc.**

The estimated future amortization expense related to intangible assets is as follows as of December 31, 2018 (in thousands):

2019	\$	1,061
2020		734
2021		687
2022		<u>84</u>
Total	\$	2,566

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, consist of the following as of December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Machinery & Equipment	\$ 7,928	\$ 7,268
Furniture & Fixtures	440	383
Transportation Equipment	2	2
Leasehold Improvements	<u>1,217</u>	<u>1,121</u>
Gross property, plant and equipment	9,587	8,774
Less: accumulated depreciation	<u>7,009</u>	<u>6,044</u>
Net property, plant and equipment	\$ 2,578	\$ 2,730

Depreciation expense of \$1.0 million and \$0.7 million was recorded for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 - OTHER ASSETS

Other assets consist of the following as of December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Long term debt issuance	\$ -	\$ 69
Deferred S3 Costs	255	-
Deferred cost	96	124
Product demo assets	351	431
Security deposit	50	50
Other	<u>35</u>	<u>49</u>
Total	\$ 787	\$ 723

Product demo assets are net of accumulated amortization expense of \$1.2 million and \$1.1 million as of December 31, 2018 and 2017, respectively. Amortization expense related to demo assets was \$0.2 million and \$0.1 million in 2018 and 2017, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

NOTE 8 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following as of December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Contingent Consideration Liability	\$ 1,442	\$ -
Deferred purchase price	852	780
Bonus	800	360
Payroll and related benefits	755	669
Goods received not invoiced	435	39
Commissions	444	360
Sales and use and VAT tax	374	98
Professional fees	233	150
Return Reserve	199	-
Warranty Reserve	90	-
Other	459	194
Severance	-	244
Total	<u>\$ 6,083</u>	<u>\$ 2,894</u>

NOTE 9 - ACCOUNTING FOR STOCK BASED COMPENSATION

The Company follows the provisions of ASC 718. The Company's results for the years ended December 31, 2018 and December 31, 2017 include stock based compensation expense totaling \$0.7 million and \$0.5 million, respectively. Such amounts have been included in the consolidated statement of operations and comprehensive loss 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 equity, including restricted stock awards, restricted stock units, 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 million 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 1.6 million 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 December 31, 2018, there are approximately 1.8 million 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

The following summarizes the components of share-based compensation expense for the years ending December 31 (in thousands):

	<u>2018</u>	<u>2017</u>
Performance Based Restricted Stock Awards	\$ -	\$ (62)
Service Based Restricted Stock Awards	172	230
Service Based Restricted Stock Units	175	-
Performance Based Stock Options	50	(235)
Service Based Stock Options	305	603
	<u>\$ 702</u>	<u>\$ 536</u>

As of December 31, 2018, \$0.3 million of unrecognized compensation costs related to unvested stock options is expected to be recognized over a remaining weighted average period of 2.8 years, \$0.3 million of unrecognized compensation costs related to unvested restricted shares is expected to be recognized over a remaining weighted average period of 3.6 years and \$0.1 million of unrecognized compensation costs related to unvested restricted stock units is expected to be recognized over 6 months.

The company had no stock option or restricted share forfeitures during the twelve months ended December 31, 2018.

Restricted Common Stock Awards

A summary of the status of the Company's non-vested restricted common stock, as granted under the Company's approved equity compensation plans, as of December 31, 2018 and 2017, and changes during the twelve months ended December 31, 2018 and 2017, are presented below:

	<u>2018</u>		<u>2017</u>	
	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
<u>Non-vested Restricted Shares</u>				
Non-vested as of January 1	159,207	\$1.64	244,291	\$1.52
Granted	225,000	\$1.68	150,000	\$1.65
Vested and Issued	(152,084)	\$1.64	(122,084)	\$1.73
Forfeited	-	-	(113,000)	\$1.77
Non-vested as of December 31	<u>232,123</u>	<u>\$1.68</u>	<u>159,207</u>	<u>\$1.64</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

The following table summarizes the restricted common stock awards granted to certain directors and officers of the company during the years ended December 31, 2018 and 2017 under the 2012 Plan:

	Number of Shares	Fair Market Value per Granted Share	Vesting
<u>2018</u>			
8/1/2018 – Service Grant – Employees	75,000	\$2.01	Annual Vesting through August 2021
12/20/18 – Service Grant - Employees	150,000	\$1.52	Annual Vesting through December 2022
2018 Total	225,000		
<u>2017</u>			
6/5/17 - Service Grant - BOD	150,000	\$1.65	Next Annual Meeting - June 2018

Restricted Stock Units:

On June 5, 2018 the Company granted 25,000 Restricted Stock Units (“RSU”) to each of our five non-employee board members under the 2012 Plan. Each RSU represents the Company’s obligation to issue one share of the Company’s common stock subject to the RSU award agreement and 2012 Plan. The grant date fair value was \$2.25 per share and the RSU’s vest on the day before the first anniversary of the grant date or, if earlier, the effective date of a separation of service due to death or disability, provided the board member has rendered continuous service to the Company as a member of the board of directors from grant date to vesting date. Once vested, the RSU will be settled by delivery of shares to the board member no later than 30 days following: 1) the third anniversary of the grant date, 2) separation from service following, or coincident with, a vesting date, or 3) a change in control.

A summary of restricted stock unit activity for the twelve months ended December 31, 2018 follows:

<u>Restricted Stock Units</u>	Number of Shares	Weighted Average Grant Date Fair Value
As of January 1	-	-
Granted	125,000	\$2.25
Vested and Issued	-	-
Forfeited	-	-
Non-vested as of December 31	125,000	\$2.25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

Performance-Based Stock Option Awards

A summary of performance-based stock option activity, and related information for the years ended December 31, 2018 and December 31, 2017 follows:

	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding as of January 1	605,000	\$1.21	2,165,000	\$1.32
Granted	-	-	-	-
Exercised	(300,000)	\$0.96	(550,000)	\$0.75
Forfeited	-	-	(1,010,000)	\$1.69
Expired	-	-	-	-
Outstanding as of December 31	305,000	\$1.45	605,000	\$1.21
Exercisable at December 31	20,000	\$0.78	320,000	\$0.95

The aggregate intrinsic value of performance-based stock options outstanding (regardless of whether or not such options are exercisable) as of December 31, 2018 was \$0.1 million and the weighted average remaining contractual life was 6.6 years. The aggregate intrinsic value of performance-based stock options exercisable as of December 31, 2018 was approximately \$20,000 and the weighted average remaining contractual life was 2.0 years. The intrinsic value of options exercised during the twelve months ended December 31, 2018 was \$0.4 million.

The range of exercise prices of outstanding performance-based options at December 31, 2018 is \$0.78 to \$1.83 with a weighted average exercise price of \$1.45 per share.

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. As of December 31, 2018, the Company has determined that the performance conditions on 285,000 options granted in 2013 and later are probable of being achieved by the year ending 2021. The Company's performance-based stock options granted prior to 2013 (consisting of 20,000 options) are fully amortized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

Service-Based Stock Option Awards

A summary of service-based stock option activity and related information for the years ended December 31, 2018 and 2017 follows:

	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding as of January 1	1,815,000	\$1.53	1,198,000	\$1.51
Granted	160,000	\$1.52	845,000	\$1.68
Exercised	-	-	(7,500)	\$1.61
Forfeited	-	-	(137,500)	\$1.48
Expired	-	-	(83,000)	\$3.00
Outstanding as of December 31	1,975,000	\$1.52	1,815,000	\$1.53
Exercisable at December 31	1,225,000	\$1.49	566,667	\$1.38

The aggregate intrinsic value of service-based stock options (regardless of whether or not such options are exercisable) as of December 31, 2018 was \$0.5 million and the weighted average remaining contractual life was 8.0 years. The aggregate intrinsic value of service-based stock options exercisable as of December 31, 2018 was \$0.3 million and the weighted average remaining contractual life was 7.8 years.

The range of exercise prices of outstanding service-based options at December 31, 2018 is \$1.30 to \$1.92 with a weighted average exercise price of \$1.52 per share.

The following table presents the assumptions used to estimate the fair value of stock option awards granted during the twelve months ended December 31, 2018:

	Number of Options	Option Term (in years)	Exercise Price	Risk Free Interest Rate	Expected Volatility	Fair Value at Grant Date	Expected Dividend Yield
12/20/18 – Service Grant	160,000	4	\$1.52	2.65%	48.53%	\$0.62	\$0.00

NOTE 10 - SEGMENT AND RELATED INFORMATION

Financial information by segment

The operating businesses of the Company are segregated into three reportable segments: (i) Network Solutions, (ii) Test and Measurement and (iii) Embedded Solutions.

Network Solutions

The Network Solutions segment is comprised primarily of the operations of the Company's subsidiary, Microlab. Network Solutions designs and manufactures a wide selection of RF passive components and integrated subsystems for signal conditioning and distribution in the wireless infrastructure markets, particularly for small cell deployments, distributed antenna systems ("DAS"), the in-building wireless solutions industry and radio base-station market. Network Solutions also offers active solution sets to assist in network timing for tunnels and in-building wireless signaling. Network Solutions customers include telecommunications service providers, systems integrators, neutral host operators and distributors.

Test and Measurement

The Test and Measurement segment is comprised primarily of the Company's operations of the Noisecom product line and the operations of its subsidiary, Boonton. Noisecom designs and produces noise generation equipment and instruments, calibrated noise sources, noise modules and diodes. Noise components and instruments are used as a method to provide wide band signals for sophisticated telecommunication and defense applications, and as a stable reference standard for instruments and systems, including radar and satellite communications. Boonton products are also used to test terrestrial and satellite communications, radar and telemetry. Certain power meter products are designed for measuring signals based on wideband modulation formats, allowing a variety of measurements to be made, including maximum power, peak power, average power and minimum power. Customers of the Test and Measurement segment include large defense contractors and the U.S. and foreign governments.

Embedded Solutions

The Embedded Solutions segment is comprised of the operations of CommAgility Limited which was acquired on February 17, 2017. Embedded Solutions supplies signal processing technology for network validation systems supporting LTE and emerging 5G networks. Additionally, this segment licenses, implements and configures LTE PHY layer and stack software for private LTE networks supporting satellite communications, the military and aerospace industries. Customers include wireless communication test equipment companies, defense subcontractors and global technology and services companies.

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

Financial information by reportable segment as of and for the years ended December 31, 2018 and 2017 is presented below (in thousands):

	For the twelve months ended December 31,	
	<u>2018</u>	<u>2017</u>
Net sales by segment:		
Network Solutions	\$ 22,275	\$ 23,052
Test and Measurement	14,212	13,380
Embedded Solutions	16,301	9,646
Total consolidated net sales of reportable segments	<u>\$ 52,788</u>	<u>\$ 46,078</u>
Segment income:		
Network Solutions	\$ 3,476	\$ 2,935
Test and Measurement	1,728	431
Embedded Solutions	1,093	374
Income from reportable segments	<u>6,297</u>	<u>3,740</u>
Other unallocated amounts:		
Corporate expenses	(5,519)	(6,685)
Other expenses - net	(695)	(301)
Consolidated income/(loss) before Income tax provision/(benefit)	<u>\$ 83</u>	<u>\$ (3,246)</u>
Depreciation and amortization by segment:		
Network Solutions	\$ 539	\$ 297
Test and Measurement	527	393
Embedded Solutions	1,239	1,057
Total depreciation and amortization for reportable segments	<u>\$ 2,305</u>	<u>\$ 1,747</u>
Capital expenditures by segment:		
Network Solutions	\$ 359	\$ 426
Test and Measurement	193	300
Embedded Solutions	301	201
Total consolidated capital expenditures by reportable segment	<u>\$ 853</u>	<u>\$ 927</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Total assets by segment:		
Network Solutions	\$ 10,088	\$ 10,442
Test and Measurement	5,943	6,163
Embedded Solutions	16,804	21,733
Total assets for reportable segments	<u>32,835</u>	<u>38,338</u>
Corporate assets, principally cash and cash equivalents and deferred income taxes	11,332	8,583
Total consolidated assets	<u>\$ 44,167</u>	<u>\$ 46,921</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Wireless Telecom Group, Inc.*****Regional Revenues***

Net consolidated revenues from operations by region were as follows (in thousands):

	Twelve Months Ended	
	December 31	
	2018	2017
Americas		
Europe, Middle East, Africa(EMEA)	\$ 32,849	\$ 33,440
Asia Pacific (APAC)	16,269	8,916
Total revenues	3,670	3,722
	<u>\$ 52,788</u>	<u>\$ 46,078</u>

Net revenues 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 years ended December 31, 2018 and 2017, sales in the United States amounted to \$31.9 million in each year.

For the year ended December 31, 2018 shipments to the EMEA regions for all reportable segments were largely concentrated in the UK, Italy and Ireland. Shipments to the UK, Italy and Ireland in 2018 amounted to \$12.4 million, \$0.5 million and \$0.5 million, respectively. For the year ended December 31, 2017 shipments to the EMEA region for all reportable segments were largely concentrated in the UK, Israel and Germany. Shipments to the UK, Germany and Israel in 2017 amounted \$5.6 million, \$0.9 million and \$0.8 million, respectively.

The largest concentration of shipments in the APAC region is to China. For the years ended December 31, 2018 and 2017, shipments to China amounted to \$2.0 million and \$1.6 million, of all shipments to the APAC region, respectively. There were no other shipments significantly concentrated in one country in the APAC region.

NOTE 11 - RETIREMENT PLAN

The Company has a 401(k) profit sharing plan covering all eligible U.S. employees. Company contributions to the plan for the years ended December 31, 2018 and 2017 amounted to \$0.2 million and \$0.3 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

NOTE 12 - INCOME TAXES

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

	Years Ended December 31,	
	<u>2018</u>	<u>2017</u>
Current:		
Federal	\$ -	\$ (4)
State	46	22
Foreign	(223)	(166)
Deferred:		
Federal	389	1,672
State	(41)	(275)
Foreign	(123)	(2)
Total	<u>\$ 48</u>	<u>\$ 1,247</u>

The following is a reconciliation of the maximum statutory federal tax rate to the Company's effective tax relative to operations:

	Years Ended December 31,	
	<u>2018</u>	<u>2017</u>
	% of Pre Tax Earnings	% of Pre Tax Earnings
Statutory federal income tax rate	21.0 %	(34.0) %
State income tax net of federal tax benefit	137.5	(3.5)
Changes in tax rates	0.0	67.4
Foreign rate difference	(239.7)	(1.5)
Repatriation tax - new law	0.0	4.8
Change in valuation allowance	(138.2)	4.4
Permanent differences	11.8	7.9
Research and development incentive	(342.7)	(6.7)
Global intangible low-taxed income	607.6	0.0
Other	(0.2)	(0.4)
Total	<u>57.1 %</u>	<u>38.4 %</u>

In 2018, the difference between the statutory and effective tax rate is due to global intangible low-taxed income, research and development deductions in the United Kingdom, foreign tax rate differences and a reduction in the state valuation allowance. In 2017 the difference between the statutory and effective tax rate is primarily due to the change in tax rates under TCJA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Wireless Telecom Group, Inc.

The components of deferred income taxes are as follows:

	Years Ended December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	\$ 11,259	\$ 11,979
Inventory	943	909
Research and development credit	648	648
Stock compensation	138	165
Other	73	108
Goodwill and intangible assets	(925)	(1,147)
Fixed assets	(438)	(439)
Gross deferred tax asset	11,698	12,223
Less valuation allowance	(6,722)	(7,051)
Net deferred tax asset	<u>\$ 4,976</u>	<u>\$ 5,172</u>

The Company has a domestic federal and state net operating loss carryforward at December 31, 2018 of approximately \$18.0 million and \$43.7 million, respectively, which begin to expire in 2029. The Company also has foreign net operating loss carryforwards at December 31, 2018 of approximately \$15.0 million for German and UK corporate tax and German trade tax purposes.

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 allowances of \$6.7 million and \$7.1 million at December 31, 2018 and 2017, respectively, are primarily associated with the Company's foreign net operating loss carryforward from an inactive foreign entity, state net operating loss carryforward and a state research and development credit. 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 December 31, 2018, management believes that it is more likely than not that the Company will fully realize the benefits of its deferred tax assets associated with its domestic federal net operating loss carryforward.

The Company does not have any significant unrecognized tax positions and does not anticipate a significant increase or decrease in unrecognized tax positions within the next twelve months.

On December 22, 2017, the United States enacted TCJA which instituted fundamental changes to the taxation of multinational corporations, including a reduction of the U.S. corporate income tax rate to 21% beginning in 2018. In response to the complexities of this new legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118) to provide companies with transitional relief. Specifically, SAB 118 provided up to one year from the date of enactment for companies to finalize the accounting for the effects of this new legislation. As of December 31, 2018, the Company has completed the accounting for the tax effects of the TCJA and did not have any material adjustments related to changes made to provisional amounts in accordance with SAB 118 guidance.

The Company has elected to record taxes related to the global intangible low-taxed income as a period cost.

The Company has recognized \$1.2 million net tax expense for the year ended 2017 which includes \$2.5 million deferred tax expense from revaluing the Company's deferred tax assets to reflect the new U.S. corporate tax rate. The TCJA also requires a one-time transition tax on the mandatory deemed repatriation of the cumulative earnings of the Company's foreign subsidiary as of December 31, 2017. To determine the amount of this transition tax, the Company determined the amount of earnings generated since inception by the relevant foreign subsidiary, as well as the amount of non-U.S. income taxes paid on such

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

earnings, in addition to potentially other factors. The Company's earnings and profits from its foreign subsidiary under the transition tax calculation is offset by net operating losses thus no transition tax was payable.

NOTE 13 – FAIR VALUE MEASUREMENTS

Fair value is defined by ASC 820 "Fair Value Measurement" as the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities.
- Level 2 - Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Payment of a portion of the CommAgility purchase price is contingent on the achievement of certain financial targets for the years ending December 31, 2017 and 2018. The Company estimated the fair value of contingent consideration at acquisition date to be \$0.8 million. During the twelve months ended December 31, 2018 the Company reassessed the fair value of the contingent consideration and recorded a loss in the amount of \$0.6 million as a result of the improved financial results at CommAgility as compared to prior estimates. The significant inputs used in the fair value estimate include anticipated gross revenues and Adjusted EBITDA, as defined, and 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 which was 15% at December 31, 2018 and will be paid in March 2019. As of December 31, 2018 the Company's contingent consideration liability is \$1.4 million and is recorded in accrued expenses and other current liabilities on the consolidated balance sheet. The contingent consideration liability is considered a Level 3 fair value measurement.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Warranties

The Company typically provides one to three 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.

Operating Leases

The Company leases a 45,700 square foot facility in Parsippany, New Jersey which has a term ending March 31, 2023 and is currently being used as the Company's principal headquarters and manufacturing plant. The Company is also responsible for its proportionate share of the cost of utilities, repairs, taxes and insurance.

Monthly lease payments range from approximately \$33,000 in year one to approximately \$41,000 in year eight. 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.

Pursuant to the Share Purchase Agreement dated February 17, 2017 the Company assumed leases for office space in Leicestershire, England consisting of 4,900 square feet and Duisburg, Germany consisting of 7,446 square feet. The Leicestershire lease expires in November 2020 and the Duisburg lease is renewable every three months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

The future minimum facility lease payments are shown below (in thousands):

2019	\$	539
2020		510
2021		474
2022		488
2023		123
Total	\$	2,134

Rent expense, inclusive of common area maintenance charges, for the years ended December 31, 2018 and 2017 was approximately \$0.8 million.

The Company leases certain equipment under operating lease arrangements. These operating leases expire in various years through 2022. All leases may be renewed at the end of their respective leasing periods.

The future minimum operating lease payments are shown below (in thousands):

2019	\$	54
2020		54
2021		54
2022		9
Total	\$	171

Environmental Contingencies

The Company's operations are subject to various federal, state, local, and foreign environmental laws, ordinances and regulations that limit discharges into the environment, establish standards for the handling, generation, use, emission, release, discharge, treatment, storage and disposal of, or exposure to, hazardous materials, substances and waste, and require cleanup of contaminated soil and groundwater.

The New Jersey Department of Environmental Protection (the "NJDEP") conducted an investigation in 1982 concerning disposal at a facility previously leased by the Company's Boonton operations. The focus of the investigation involved certain materials formerly used by Boonton's manufacturing operations at that site and the possible effect of such disposal on the aquifer underlying the property. The disposal practices and the use of the materials in question were discontinued in 1978. The Company has cooperated with the NJDEP investigation and has been diligently pursuing the matter in an attempt to resolve it in accordance with applicable NJDEP operating procedures. The above referenced activities were conducted by Boonton prior to our acquisition of that entity in 2000.

In 1982, Boonton and the NJDEP agreed upon a plan to correct ground water contamination at the site, located in the township of Parsippany-Troy Hills, pursuant to which wells have been installed by Boonton. 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 plan, there will be limited and reduced monitoring and testing as long as concentrations at the site continue on a decreasing trend.

Expenditures incurred by the Company during the year ended December 31, 2018 and 2017 in connection with monitoring and testing at the site amounted to approximately \$8,000 and \$1,000, respectively. 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. Our estimate of future monitoring and testing costs is \$35,000 through 2027 when we expect final release from the NJDEP. The Company will continue to be liable under the plan, in all future years, until such time as the NJDEP releases the Company from all obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Wireless Telecom Group, Inc.

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 environmental liability that may have a material adverse effect on its ongoing business operations.

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.

The Company's deferred tax asset is recorded at tax rates expected to be in existence when those assets are utilized. Should the tax rates change materially in the future the amount of deferred tax asset could be materially impacted.

NOTE 15 – SUBSEQUENT EVENTS

On February 26, 2019 the Company entered into Amendment No. 3 to the Credit Facility which extends the termination date of the Revolver from November 16, 2019 to March 31, 2020.

NOTE 16 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of selected quarterly financial data from operations (in thousands, except per share amounts).

2018	Quarter			
	1st	2nd	3rd	4th
Net revenues	\$ 13,264	\$ 13,414	\$ 14,019	\$ 12,091
Gross profit	6,268	6,171	6,464	5,264
Operating income/(loss)	568	33	919	(741)
Net income/(loss)	374	(179)	558	(718)
Diluted earnings/(loss) per share	\$ 0.02	\$ (0.01)	\$ 0.03	\$ (0.03)

2017	Quarter			
	1st	2nd	3rd	4th
Net revenues	\$ 9,549	\$ 11,933	\$ 12,560	\$ 12,036
Gross profit	4,333	3,344	6,113	5,471
Operating income/(loss)	(1,718)	(2,247)	804	261
Net income/(loss)	(1,231)	(1,368)	653	(2,547)
Diluted earnings/(loss) per share	\$ (0.06)	\$ (0.07)	\$ 0.03	\$ (0.11)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the Dodd-Frank Wall Street and Consumer Protection Act, which exempts non-accelerated filers and smaller reporting companies from the auditor attestation requirement of Section 404 (b) of the Sarbanes-Oxley Act.

(c) Changes in Internal Controls over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

[This page intentionally left blank]

Corporate Profile

Directors

Alan L. Bazaar
Chief Executive Officer of Hollow Brook Wealth Management LLC, *Private Equity Firm*

Joseph Garrity
Chief Operating Officer & Chief Financial Officer, Salem Global Partners, Inc., *Strategic Consulting and Recruiting Company*

Mitchell Herbets
Managing Principal, Herbets Consulting LLC, *Consulting Company*
Chairman of Thales Defense and Security, Inc.

Michael H. Millegan
Former President, Verizon Global Wholesale

Allan D. L. Weinstein
Managing Partner, Gainline Capital Partners LP, *Private Equity Firm*

Timothy Whelan
Wireless Telecom Group, Chief Executive Officer

Officers

Timothy Whelan
Chief Executive Officer

Michael Kandell
Chief Financial Officer and Corporate Secretary

Dan Monopoli
Chief Technology Officer

Transfer Agent and Registrar

American Stock Transfer & Trust Company

Independent Accountants

PKF O'Connor Davies, LLP

Legal Counsel

Bryan Cave Leighton Paisner LLP, New York, NY

Exchange Listing

NYSE-American Symbol: WTT

Annual Meeting

The Annual Meeting of the Stockholders will be held at 9:00 a.m. on Thursday May 30, 2019 at:
The Offices of Bryan Cave Leighton Paisner LLP
1290 Avenue of the Americas
New York, NY 10104

A copy of the Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge by written request addressed to:

Michael Kandell
Chief Financial Officer and Corporate Secretary
Wireless Telecom Group, Inc.
25 Eastmans Road
Parsippany, NJ 07054
USA

Certifications

The Company has filed as exhibits to its Annual Report on Form 10-K for the fiscal year ended December 31, 2018, the Chief Executive Officer and Chief Financial Officer certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. The Company has also filed with the New York Stock Exchange the required annual Chief Executive Officer certification as required by the New York Stock Exchange Listed Company Manual.



25 Eastmans Rd
Parsippany, NJ
United States
Tel: +1 973 386 9696
Fax: +1 973 386 9191
www.wirelesstelecomgroup.com

Follow us on:

WTGinnovation

Wireless Telecom Group

WTGinnovation



Wireless Telecom Group Inc.
25 Eastmans Rd
Parsippany, NJ 07054
United States
Tel: +1 973 386 9696
Fax: +1 973 386 9191
www.wirelesstelecomgroup.com