

WIRELESS TELECOM GROUP INC  
Form 10-K  
March 30, 2012

**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended December 31, 2011

OR

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

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

Commission file number 1-11916

**WIRELESS TELECOM GROUP, INC.**

(Exact name of registrant as specified in its charter)

New Jersey

22-2582295

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

25 Eastmans Road,  
Parsippany, New Jersey

07054

(Address of principal executive offices)

(Zip Code)

(973) 386-9696

(Registrant's Telephone Number, Including Area Code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$.01 per share

NYSE Amex

Securities registered pursuant to Section 12(g) of the Act:

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none

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Do not check if a smaller reporting company

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

The aggregate market value of the registrant's Common Stock, \$.01 par value, held by non-affiliates and computed by reference to the closing price as reported by NYSE Amex on June 30, 2011: \$20,330,772

Number of shares of Wireless Telecom Group, Inc. Common Stock, \$.01 par value, outstanding as of March 27, 2012:  
24,328,683

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed within 120 days of the end of the fiscal year covered by this Annual report on Form 10-K.

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**PART I****Item 1. Business**

Wireless Telecom Group, Inc., a New Jersey corporation (the Company), designs and manufactures radio frequency (RF) and microwave-based products for wireless and advanced communications industries and currently markets its products and services worldwide under the Boonton, Microlab and Noisecom brands. Its complementary suite of high performance instruments and components includes peak power meters, signal analyzers, power splitters, combiners, diplexers, noise modules and precision noise generators. The Company serves both commercial and government markets with workflow-oriented, built-for-purpose solutions in cellular/mobile, WiFi, WiMAX, private mobile radio, satellite, cable, radar, avionics, medical, and computing applications. The consolidated financial statements include the accounts of Wireless Telecom Group, Inc. and its wholly-owned subsidiaries Boonton Electronics Corporation, Microlab/FXR, Willtek Communications GmbH (through May 7, 2010), WTG Foreign Sales Corporation and NC Mahwah, Inc. The corporate website address is www.wtcom.com.

On May 7, 2010, the Company sold substantially all the operating assets and certain liabilities of its foreign subsidiary, Willtek Communications GmbH (Willtek). Accordingly, the operating activities of Willtek for the year ended December 31, 2010 are included in the Company's financial statements as discontinued operations. As a result, the succeeding information, including management's discussion and analysis, pertains primarily to the Company's continuing operations.

In December 2011, the Company's management reevaluated how it manages and discusses, both internally and with its board of directors, its operations and the operations of its wholly-owned subsidiaries Boonton Electronics Corporation (Boonton) and Microlab/FXR (Microlab). Therefore, the Company has revised its segment reporting to reflect two reportable segments, test and measurement and network solutions. The test and measurement segment is comprised primarily of the operations of Boonton and Noisecom. The network solutions segment is comprised primarily of the operations of Microlab. Relative prior period information has been revised accordingly. The Company believes the revised segment reporting better reflects how its operating segments are managed and each segment's performance is evaluated.

Sales by reportable segment for the years ended December 31, 2011 and 2010 were as follows:

|                      | 2011                 | 2010                 |
|----------------------|----------------------|----------------------|
| Test and measurement | \$ 13,855,052        | \$ 15,917,601        |
| Network solutions    | 12,968,388           | 8,646,625            |
|                      | <u>\$ 26,823,440</u> | <u>\$ 24,564,226</u> |

Additional financial information on the Company's reportable segments for each of the last two years is included in the Company's Notes to the consolidated financial statements (see Note 8, Segment and Related Information) included in Item 8 herein.

**Market**

Since the Company's incorporation in the State of New Jersey in 1985, it has been primarily engaged in supplying noise source products and electronic testing and measurement instruments and passive components to various customers. Approximately 78% of the Company's consolidated sales in fiscal 2011 were derived from commercial applications. The remaining consolidated sales (approximately 22%) were comprised of sales made to the United States Government (particularly the armed forces) and prime defense contractors.

**Products**

The Company, through its Microlab subsidiary, designs and manufactures a wide selection of RF and microwave components to be sold for the wireless infrastructure market, particularly for distributed antenna systems ( DAS ), the in-building wireless solutions industry, radio base-station market and medical equipment sector. Microlab s passive RF components share unique capabilities in the area of broadband frequency coverage, minimal loss and low passive intermodulation ( PIM ).

Microlab product offerings include: neutral host DAS and co-siting combiner solutions, hybrid couplers and hybrid matrices, cross band couplers, attenuators, RF terminations, RF power splitter and diplexers, as well as RF combiners and broadband combiner boxes for in-building DAS deployments.

The Company, through its Boonton subsidiary, designs and produces electronic test and measurement equipment including power meters, voltmeters, capacitance meters, audio and modulation meters, passive intermodulation test equipment for cellular transmission signals and accessory products. These products measure the power of RF and microwave systems used by the military and in commercial sectors like telecommunications.

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.

The Company s noise components and instruments (noise source products) 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. Furthermore, noise sources can simulate challenging signaling conditions in data and RF transmission systems. Examples are jitter testing for high speed data lines used in modern computer architecture and signal to noise measurements to optimize wireless receivers and transmitters. Additionally, noise sources are used for jamming RF signals, and blocking or disturbing enemy radar and other communications, as well as insulating and protecting friendly communications.

Noise sources also are used 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 as the demand for communication availability and reliability is increasing. This test assures that the back-up receiver is always functional and ready.

The Company also offers a line of broadband test sources serving the Cable Television and Cable Modem industry, including measurement solutions for CATV equipment, Data-Over-Cable ( DOCSIS ) and Digital TV.

The Company s products consist of several models with varying degrees of capabilities which can be customized to meet particular customer requirements. They may be incorporated directly into the electronic equipment concerned or may be stand alone components or devices that are connected to, or used in conjunction with, such equipment operating from an external site, in the factory or in the field. Prices of products range from approximately \$100 to \$100,000 per unit, with most sales occurring between \$2,000 and \$35,000 per unit.

The Company s products have extended useful lives and the Company provides recalibration services for its instrument products to ensure their accuracy, for a fee, to its domestic and international customers, and also calibrates test equipment manufactured by others. Such services accounted for approximately 5% of fiscal 2011 consolidated sales.

**Marketing and Sales**

As of March 28, 2012, the Company s in-house marketing and sales force consisted of nineteen individuals. The Company promotes the sale of its products to customers and manufacturers representatives through its web-site, product literature, publication of articles, presentations at technical conferences, direct mailings, trade advertisements and trade show exhibitions.

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The Company's products are sold globally through its in-house sales people and by over one hundred manufacturers' representatives and distributors (the Company's channel partners). Generally, our channel partners do not stock inventories of the Company's products. Channel partners accounted for 75% and 82% of the Company's consolidated sales for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2011 and 2010, no one channel partner accounted for more than 10% of total consolidated sales. The Company does not believe that the loss of any single channel partner would have a material adverse affect on its business.

The Company's relationship with its channel partners is usually governed by written contracts that either run for one-year renewable periods terminable by either party on 60 days prior notice or have indefinite lives terminable by either party on 60 days prior notice. The contracts generally provide for territorial and product representation. The Company continually reviews and assesses the performance of its channel partners and makes changes from time to time based on such assessments.

Management believes that its products offer state-of-the-art performance combined with outstanding customer and technical support. The Company has always placed great emphasis on designing its products to be user-friendly.

### ***Customers***

The Company currently sells the majority of its products to various commercial users in the communications industry. Other sales are made to large defense contractors, which incorporate the Company's products into their products for sale to the U.S. and foreign governments, multi-national concerns and Fortune 500 companies. In fiscal 2011, approximately 78% of consolidated sales were derived from commercial applications. The remaining consolidated sales were comprised of United States government and military applications.

For fiscal 2011, no one customer accounted for more than 10% of total consolidated sales. The Company's largest customers vary from year to year. Accordingly, while the complete loss of any large customer or substantial reduction of sales to such customers could have a material adverse affect on the Company, the Company has experienced shifts in sales patterns with such large companies in the past without any material adverse affect. There can be no assurance, however, that the Company will not experience future shifts in sales patterns not having a material adverse affect on its business.

Regional consolidated sales from continuing operations for fiscal 2011 were made to customers in the Americas (\$19,810,973 or 74% of total consolidated sales), Europe, Middle East and Africa or EMEA (\$4,982,978 or 19% of total consolidated sales) and Asia Pacific or APAC (\$2,029,489 or 7% of total consolidated sales).

### ***Research and Development***

The Company currently maintains an engineering staff (eighteen individuals as of March 28, 2012) whose duties include the improvement of existing products, modification of products to meet customer needs and the engineering, research and development of new products and applications. Expenses for research and development involve engineering for improvements and development of new products for commercial markets. Such expenditures for continuing operations include the cost of engineering services and engineering support personnel and were approximately \$2,261,000 and \$2,175,000 for the years ended December 31, 2011 and 2010, respectively.

### ***Competition***

The Company competes against many companies, which utilize similar technology to that of the Company, some of which are larger and have substantially greater resources and expertise in financial, technical and marketing areas than the Company. Some of these companies are Agilent Technologies, Rhode and Schwarz, Anritsu, Kathrein, Aeroflex and Micronetics. The Company competes by having a niche in several product areas where it capitalizes on its expertise in manufacturing products with unique specifications.

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The Company designs its products with special attention to making them user-friendly, and constantly re-evaluates its products for the purpose of enhancing and improving them. The Company believes that these efforts, along with its willingness to adapt its products to the particular needs of its customers and its intensive efforts in customer and technical support are factors that add to the competitiveness of its products.

### ***Backlog***

The Company's consolidated backlog of firm orders shippable in the next twelve months was approximately \$4,600,000 at December 31, 2011, compared to approximately \$2,400,000 at December 31, 2010. It is anticipated that the majority of the backlog orders will be filled during the current year. The stated backlog is not necessarily indicative of Company sales 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 inventory policy stresses maintaining substantial raw materials in order to lessen its dependency on third party suppliers and to improve its capacity to facilitate production. However, shortages or delays of supplies may, in the future, have a material adverse impact on the Company's operations. No third-party supplier accounted for more than 10% of the Company's total inventory purchases for fiscal 2011.

The Company is not party to any formal written contract 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.

The Company primarily produces its products by final and some intermediate assembly, calibration and testing. Testing of products is generally accomplished at the end of the manufacturing process and is performed in-house as are all quality control processes. The Company utilizes modern equipment for the design, engineering, manufacture, assembly and testing of its products.

### ***Warranty and Service***

The Company typically provides one-year warranties on its instrument 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. Repairs that are necessitated by misuse of such products or are required outside the warranty period are not covered by the Company's warranty.

In cases of defective products, the customer typically returns them to a Company 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 plants, and the Company charges its customers a fee for those service items that are not covered by warranty. The Company's Noisecom and Microlab/FXR divisions typically don't offer their customers any formal written service contracts. However, the Company's Boonton division does offer its customers' formal written service contracts for a fee.

Historically, warranty expense within the Company has been minimal. In 2009, there was a onetime increase of \$240,000 in warranty costs due to the potential rework of specific product shipped in 2008. In the first quarter of 2011, the Company reversed the one-time warranty accrual as this product is no longer being produced at original specifications and management believes there is a remote likelihood that any units will be returned.

### ***Product Liability Coverage***

The testing of electronic communications equipment and the accurate transmission of information entail a risk of product liability by customers and others. Claims may be asserted against the Company by end-users of any of the Company's products.

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The Company maintains product liability insurance coverage and no claims have been asserted for product liability due to a defective or malfunctioning device. However, it is possible that the Company may be subject to such claims in the future and corresponding litigation should one or more of its products fail to perform or meet certain minimum specifications.

### *Intellectual Property*

Proprietary information and know-how are important to the Company's commercial success. The trademark *Boonton* was registered in the United States Patent and Trademark Office. 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-competition 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.

### *Environmental Protection*

The New Jersey Department of Environmental Protection (the *NJDEP*) had conducted an investigation in 1982 concerning disposal at a facility in New Jersey previously leased by the Company's *Boonton* operations. Involved were 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 the acquisition of that entity in 2000.

The Company and the *NJDEP* previously 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 the Company. The plan contemplates that the wells will be operated and that soil and water samples will be taken and analyzed until such time that contamination levels are satisfactory to the *NJDEP*. Recently, the Company has hired a new environmental consultant to evaluate the results of the current remediation plan that has been in effect since 1982. The Company is diligently pursuing efforts to satisfy the requirements of the original plan and receive a new determination from the *NJDEP*. Overall data from recent testing in Spring of 2011 indicates the continuation of a decreasing concentration trend at the site. The overall decrease supports the absence of a continuing source impacting ground water. The Company believes that its current practice and plan of groundwater testing will continue until an official notification from *NJDEP* is obtained and the Company is released from further obligations.

Expenditures incurred by the Company during the year ended December 31, 2011 in connection with the site amounted to approximately \$68,000. While management anticipates that the expenditures in connection with this site will not be substantial in future years, the Company could be subject to significant future liabilities and may incur significant future expenditures if further contaminants from *Boonton*'s testing are identified and the *NJDEP* requires additional remediation activities. Management is unable to estimate future remediation costs, if any, at this time. The Company will continue to be liable under the plan, in all future years, until such time as the *NJDEP* releases it from all obligations applicable thereto.

### *Employees*

As of March 28, 2012, the Company had 102 full-time employees, including its officers, 53 of whom are engaged in manufacturing and repair services, 12 in administration and financial control, 18 in engineering and research and development, and 19 in marketing and sales.

The Company considers its relationship with its employees to be satisfactory.



The design and manufacture of the Company's products require substantial technical capabilities in many disparate disciplines, from mechanics and computer science to electronics and mathematics. While the Company believes that the capability and experience of its technical employees compares favorably with other similar manufacturers, there can be no assurance that it can retain existing employees or attract and hire the highly capable technical employees it may need in the future on terms deemed favorable to the Company.

**Item 1A. Risk Factors**

**Ongoing recessionary economic conditions have adversely affected and may further adversely affect our business, results of operations, and financial condition.**

General recessionary economic conditions have negatively impacted our business in the past and could further impact our business in the future if economic recovery is slow to occur. In addition to the potentially negative impact on our revenues, unstable economic conditions could also have a number of additional effects on our business, including insolvency of key suppliers or manufacturers resulting in product delays, inability of customers to obtain credit to finance purchases of our products, customer insolvencies, increased product returns, increased pricing pressures, restructuring expenses and associated diversion of management's attention, excess inventory and increased difficulty in our accurately forecasting product demand and planning future business activities. If the economy or markets into which we sell our products are slow to recover, our business, financial condition and results of operations could be materially and adversely affected.

**We face intense competition, which could result in lower revenues, higher research and development expenditures and adversely affect our results of operations.**

We operate in industries characterized by aggressive competition, rapid technological change, evolving technology standards and short product life cycles. Many of our competitors utilize similar technologies to ours and have substantially greater resources and expertise in financial, technical and marketing areas than we have. Our competitors may introduce products that are competitively priced, have increased performance or functionality or incorporate technological advances that we have not yet developed or implemented.

To remain competitive, we must continue to develop, market and sell new and enhanced products at competitive prices, which will require significant research and development expenditures. If we do not develop new and enhanced products or if we are not able to invest adequately in our research and development activities, our business, financial condition and results of operations could be negatively impacted.

**Unless we keep pace with changing technologies, we could lose existing customers and fail to win new customers.**

Our future success will depend upon our ability to develop and introduce a variety of new products and services and enhancements to these new products and services in order to address the changing needs of the marketplace. We may not be able to accurately predict which technologies customers will support. If we do not introduce new products, services and enhancements in a timely manner, if we fail to choose correctly among technical alternatives or if we fail to offer innovative products and services at competitive prices, customers may forego purchases of our products and services and purchase those of our competitors.

**If our products do not perform as promised, we could experience increased costs, lower margins and harm to our reputation.**

The failure of our products to perform as promised could result in increased costs, lower margins and harm to our reputation. This could result in contract terminations and have a material adverse effect on our business and financial results.

**The testing of electronic communications equipment and the accurate transmission of information entail a risk of product liability by customers and third parties.**

Claims may be asserted against us by end-users of any of our products for liability due to a defective or malfunctioning device made by us, and we may be subject to corresponding litigation should one or more of our products fail to perform or meet certain minimum requirements. Such a claim and corresponding litigation could result in substantial costs, diversion of resources and management attention, termination of customer contracts and harm to our reputation.

**If we fail to adequately manage our resources, it could have a severe negative impact on our financial results or stock price.**

We could be subject to fluctuations in technology spending by existing and potential customers. Accordingly, we will have to actively manage expenses in a rapidly changing economic environment. This could require reducing costs during economic downturns and selectively growing in periods of economic expansion. If we do not properly manage our resources in response to these conditions, our results of operations could be negatively impacted.

**Our customers and we are subject to various governmental regulations, compliance with which may cause us to incur significant expenses, and if we fail to maintain satisfactory compliance with certain regulations, we may be forced to recall products and cease their distribution, and we could be subject to civil or criminal penalties.**

Our businesses are subject to various significant international, federal, state and local regulations, including but not limited to health and safety, packaging, product content, labor and import/export regulations. These regulations are complex, change frequently and have tended to become more stringent over time. We may be required to incur significant expenses to comply with these regulations or to remedy violations of these regulations. Any failure by us to comply with applicable government regulations could also result in cessation of our operations or portions of our operations, product recalls or impositions of fines and restrictions on our ability to carry on or expand our operations.

**We are subject to laws and regulations governing government contracts, and failure to address these laws and regulations or comply with government contracts could harm our business by leading to a reduction in revenue associated with these customers.**

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the U.S. government. The laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts. We are also subject to investigation for compliance with the regulations governing government contracts. A failure to comply with these regulations might result in suspension of these contracts, or administrative penalties.

**Shortages or delay of supplies of component parts may adversely affect our operating results until alternate sources can be developed.**

Our operations are dependent on the ability of suppliers to deliver quality components, devices and subassemblies in time to meet critical manufacturing and distribution schedules. If we experience any constrained supply of any such component parts, such constraints, if persistent, may adversely affect operating results until alternate sourcing can be developed. There may be an increased risk of supplier constraints in periods where we are increasing production volume to meet customer demands. Volatility in the prices of these component parts, an inability to secure enough components at reasonable prices to build new products in a timely manner in the quantities and configurations demanded or, conversely, a temporary oversupply of these parts, could adversely affect our future operating results.

**We could be subject to significant costs related to environmental contamination from past operations, and environmental contamination caused by ongoing operations could subject us to substantial liabilities in the future.**

The New Jersey Department of Environmental Protection, or the NJDEP, had conducted an investigation in 1982 concerning disposal at a facility in New Jersey previously leased by our Boonton operations. Involved were 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, prior to our acquisition of Boonton Electronics Corporation in 2000. In 1982, the Company and the NJDEP agreed on a plan to correct ground water contamination at the site. The plan consists of the installation of several monitoring wells in order to take periodic soil and water samples until such time, which we are unable to predict, that contamination levels are satisfactory to the NJDEP. While we anticipate that the expenditures in connection with the site will not be substantial in future years, we could be subject to significant future liabilities and may incur significant future expenditures in connection with the former Boonton site. The determination of the existence and cost of any additional contamination caused by us could involve costly and time-consuming negotiations and litigation. While we are not aware of any material liabilities associated with any potential contamination at this former site, subsurface contamination may exist, and we may be exposed to material liability as a result of the existence of that contamination under various international, federal, state and local laws governing the environment.

**The loss of key personnel could adversely affect our ability to remain competitive.**

We believe that the continued service of our executive officers will be important to our future growth and competitiveness. However, other than our severance agreement we entered into with Mr. Genova, Chief Executive Officer, we currently do not have any employment agreements with any of our executive senior management. Although we have a severance agreement with Mr. Genova, we cannot assure you that Mr. Genova or any of our other executive officers will remain employed by us. Moreover, the design and manufacture of our products require substantial technical capabilities in many disparate disciplines, from engineering, mechanics and computer science to electronics and mathematics. We believe that the continued employment of key members of our technical and sales staffs will be important to us but, as with our executive officers, we cannot assure you that they will remain employed by us.

**Third parties could claim that we are infringing on their intellectual property rights which could result in substantial costs, diversion of significant managerial resources and significant harm to our reputation.**

The industries in which our company operates are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. From time to time, third parties may assert patent, copyright, trademark and other intellectual property rights to technologies in various jurisdictions that are important to our business.

**Misappropriation of our intellectual property could harm our reputation, affect our competitive position and cost money.**

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 patent, copyright, trademark and trade secret laws, as well as confidentiality agreements to establish and protect our proprietary rights. If we are unable to protect our intellectual property against unauthorized use by third parties, our reputation among existing and potential customers could be damaged and our competitive position adversely affected.

Attempts may be made to copy aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent misappropriation of our technology or deter others from developing similar technology. Our strategies to deter misappropriation could be undermined if:

the proprietary nature or protection of our methodologies is not recognized in the United States or foreign countries;

third parties misappropriate our proprietary methodologies and such misappropriation is not detected; and

competitors create applications similar to ours but which do not technically infringe on our legally protected rights.

If these risks materialize, we could be required to spend significant amounts to defend our rights and divert critical managerial resources. In addition, our proprietary methodologies may decline in value or our rights to them may become unenforceable. If any of the foregoing were to occur, our business could be materially adversely affected.

**Our business and operations could suffer in the event of security breaches.**

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated and are sometimes successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result. In addition, we may be required to devote additional resources to the security of our information technology systems.

**The success of our ability to grow sales and develop relationships in Europe and Asia may be limited by risks related to conducting business in European and Asian markets.**

Part of our strategy is to increase sales and build additional relationships in European and Asian markets. Risks inherent in marketing, selling and developing relationships in European and Asian markets include those associated with:

economic conditions in European and Asian markets, including the impact of recessions in European and Asian economies and fluctuations in the relative values of the U.S. dollar, the Euro and Asian currencies;

taxes and fees imposed by European and Asian governments that may increase the cost of products and services;

greater difficulty in accounts receivable collection and longer collection periods;

seasonal reductions in business activities in some parts of the world;

laws and regulations imposed by individual countries and by the European Union, particularly with respect to intellectual property, license requirements and environmental requirements; and

political and economic instability, terrorism and war.

In addition, European and Asian intellectual property laws are different than and may not protect our proprietary rights to the same extent as do U.S. intellectual property laws, and we will have to ensure that our intellectual property is adequately protected in foreign jurisdictions and in the United States. If we do not adequately protect our intellectual property rights, competitors could use our proprietary technologies in non-protected jurisdictions and put us at a competitive disadvantage.

**Environmental and other disasters, such as flooding, large earthquakes, volcanic eruptions or nuclear or other disasters, or a combination thereof, such as recently experienced in Japan, may negatively impact our business.**

Although we manufacture our products in New Jersey, we both source and ship our products globally. Environmental and other disasters may cause disruption to our supply chain or impede our ability to ship product to certain regions of the world. The earthquakes and tsunami in the Pacific Rim during 2011 did not significantly impact our business. However, there can be no assurance that similar environmental and/or other such disasters will not have an adverse impact on our business in the future.

**We are exposed to risks associated with acquisitions, investments and divestitures.**

We have made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions and investments involve numerous risks, including, but not limited to:

difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;

diversion of management's attention from other operational matters;

the potential loss of key employees of acquired businesses;

lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;

failure to commercialize purchased technology; and

the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods.

We may be required to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short term investments.

With respect to divestitures, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets and may not be able to complete proposed divestitures on terms commercially favorable to us.

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 31, 2011 we had a goodwill balance of approximately \$1.4 million.

**The concentration of ownership of our outstanding common stock with the former Willtek shareholders following the Willtek acquisition, as well as certain provisions of the shareholders' agreement we entered into with the former Willtek shareholders at the closing of the Willtek acquisition, enables the former Willtek shareholders to significantly influence the outcome of all matters, transactions and corporate actions that require approval of our shareholders.**

The former Willtek shareholders, together, beneficially own approximately 27% of the outstanding shares of our common stock as of March 27, 2012. Under the terms of the shareholders' agreement we entered into with the former Willtek shareholders at the closing of the Willtek acquisition, designees of Investcorp occupy two of seven seats on our board of directors. Additionally, at each annual meeting, Investcorp is entitled to designate to our nominating committee up to two candidates for nomination for election to our seven-member board of directors, for so long as Investcorp's beneficial ownership levels exceed certain percentage thresholds.

The post-acquisition concentration of ownership of our outstanding common stock with the former Willtek shareholders, combined with Investcorp's right to designate director candidates for nomination and the former Willtek shareholders' voting obligations in the election of directors under the terms of the shareholders' agreement, enables the former Willtek shareholders to significantly influence the outcome of all matters, transactions and corporate actions that require approval of our shareholders, including the election and removal of directors and mergers or other business combination transactions, and could have the effect of delaying or preventing a change-in-control of the Company or otherwise discourage a potential acquirer from attempting to obtain control of the Company. This, in turn, could have an adverse effect on the market price of our common stock or prevent our shareholders from realizing a premium over the market price for their shares of common stock.

**The inability to maintain adequate levels of liquidity may have an adverse affect on the working capital of the Company.**

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

**The Company is subject to compliance with the policies & procedures of the NYSE Amex with respect to continued listing on the stock exchange.**

In considering whether a security warrants continued trading and/or listing on the NYSE Amex Exchange, many factors are taken into account, such as the degree of investor interest in the company, its prospects for growth, the reputation of its management, the degree of commercial acceptance of its products, and whether its securities have suitable characteristics for auction market trading. Thus, any developments which substantially reduce the size of a company, the nature and scope of its operations, the value or amount of its securities available for the market, or the number of holders of its securities, may occasion a review of continued listing by the Exchange. Moreover, events such as the sale, destruction, loss or abandonment of a substantial portion of its business, the inability to continue its business, steps towards liquidation, or repurchase or redemption of its securities, may also give rise to such a review.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company leases a 45,700 square foot facility located in Hanover Township, Parsippany, New Jersey, which is currently being used as its principal corporate headquarters and manufacturing plant. On May 5, 2011, the Company entered into a building lease agreement with its current landlord to remain at its principal corporate headquarters. The term of the lease agreement is for three years beginning October 1, 2011 and ending September 30, 2014 and can be renewed at the tenant's option for one five-year period at fair market value to be determined at term expiration.

The Company also owns a 44,000 square foot facility located in Mahwah, New Jersey. In November 2000, the Company entered into a lease agreement with an unrelated third party for the entire facility. The triple net lease runs through August 1, 2013 and the tenant has an exclusive option to purchase the property at a predetermined purchase price of approximately \$3,500,000 up through August 1, 2012 during the lease term.

**Item 3. Legal Proceedings**

Reference is made to the discussion in Item 1 above regarding an investigation by the NJDEP concerning certain discontinued practices of the Company and their effect on the soil and ground water at a certain facility formerly occupied by the Company. No administrative or judicial proceedings have been commenced in connection with such investigation. The owner of the Parsippany-Troy Hills facility has previously notified the Company, that if the investigation proves to interfere with the sale of the property, it may seek to hold the Company liable for any resulting damages. Since May 1983, the owner has been on notice of this problem and has failed to institute any legal proceedings with respect thereto. While this does not bar the owner from instituting a suit, it is the opinion of the Company's legal counsel that it is unlikely that the owner would prevail on any claim. The above referenced activity was conducted by Boonton prior to the acquisition of that entity in 2000. There are no other material legal proceedings known to the Company.

**Item 4. Mine Safety Disclosures**

Not applicable.

## 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 has traded on the American Stock Exchange under the name Wireless Telecom Group, Inc. (Symbol: WTT) since September 12, 1994. The following table sets forth the high and low sales prices of the Company's Common Stock for the periods indicated as reported on the New York Stock Exchange Amex (formerly the American Stock Exchange).

| 2011 Fiscal Year        | High    | Low     |
|-------------------------|---------|---------|
| 1st Quarter             | \$ 1.30 | \$ 0.82 |
| 2nd Quarter             | 1.05    | 0.72    |
| 3rd Quarter             | 0.89    | 0.67    |
| 4th Quarter             | 1.39    | 0.73    |
| <u>2010 Fiscal Year</u> |         |         |
| 1st Quarter             | \$ 1.04 | \$ 0.70 |
| 2nd Quarter             | 1.14    | 0.72    |
| 3rd Quarter             | 0.85    | 0.60    |
| 4th Quarter             | 0.88    | 0.67    |

On March 27, 2012, the closing price of the common stock of the Company as reported was \$1.20. On March 27, 2012, the Company had 465 stockholders of record. These stockholders of record do not include non-registered stockholders whose shares are held in nominee or street name.

The Company did not declare quarterly dividends for the past five years.

**Issuer Purchases of Equity Securities**

The following table provides the number of shares purchased and average price paid during the quarter ended December 31, 2011, the total number of shares purchased as part of our publicly announced repurchase programs, and the maximum number of shares that may yet be purchased under our stock repurchase program at December 31, 2011.

| Period                               | Total number of shares purchased (1) | Average price paid per share (\$) | Total number of shares purchased as part of publicly announced plans or programs (1) | Maximum number of shares that may yet be purchased under the plans or programs (2) |
|--------------------------------------|--------------------------------------|-----------------------------------|--|--|
| October 1, 2011 - October 31, 2011   | 59,856                               | \$ 0.87                           | 59,856   | 1,417,810  |
| November 1, 2011 - November 30, 2011 | 153,187                              | \$ 1.12                           | 153,187  | 1,264,623  |
| December 1, 2011 - December 31, 2011 | 256,503                              | \$ 1.25                           | 256,503  | 1,008,120  |
| Total                                | 469,546                              | \$ 1.06                           | 469,546  |  |





- (1) These purchases were made pursuant to the stock repurchase program approved by our Board of Directors on January 14, 2008 and announced on January 17, 2008 pursuant to which the Company may repurchase up to 5% of our common stock from time to time on the open market or in private transactions, including structured or accelerated transactions, on terms and conditions to be determined by the Company and its Board of Directors. The stock repurchase authorization does not have an expiration date and can be modified or discontinued at any time.
- (2) On September 8, 2011, announced on September 13, 2011, the Company's Board of Directors authorized a modification to the 2008 stock repurchase program. The authorization increased the number of shares allowed to be repurchased under the program by approximately 1,300,000 shares.

| Plan category  | Number of securities<br>to be issued upon<br>exercise of<br>outstanding options,<br>warrants, and rights | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights | Number of securities<br>remaining available for<br>future issuance under<br>equity compensation<br>plan (excluding<br>securities reflected in<br>the previous columns) |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 2,348,667  | \$ 1.65  | 1,819,250  |
| Equity compensation plans not approved by security holders |  |  |  |
| Total  | 2,348,667  | \$ 1.65  | 1,819,250  |

**Item 6. Selected Financial Data**

Not applicable.

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

**Introduction**

Wireless Telecom Group, Inc., and its operating subsidiaries, (collectively, the Company), develop, manufacture and market a wide variety of electronic noise sources, electronic testing and measuring instruments including power meters, voltmeters and modulation meters and high-power passive microwave components for wireless products. The Company's products have historically been primarily used to test the performance and capability of cellular/PCS and satellite communication systems and to measure the power of RF and microwave systems. Other applications include radio, radar, wireless local area network (WLAN) and digital television.

On May 7, 2010, the Company sold substantially all the operating assets and certain liabilities of its foreign subsidiary, Willtek. Accordingly, the operating activities of Willtek for the year ended December 31, 2010 are included in the Company's financial statements as discontinued operations.

In December 2011, the Company's management reevaluated how it manages and discusses, both internally and with its board of directors, its operations and the operations of its subsidiaries Boonton and Microlab. Therefore, the Company has revised its segment reporting to reflect two reportable segments, test and measurement and network solutions. The test and measurement segment is comprised primarily of the operations of Boonton and Noisecom. The network solutions segment is comprised primarily of the operations of Microlab. Relative prior period information has been revised accordingly. The Company believes the revised segment reporting better reflects how its operating segments are managed and each segment's performance is evaluated. Additional financial information on the Company's reportable segments for each of the last two years is included in Note 8 to the Company's consolidated financial statements included in Item 8 herein.

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The financial information presented herein includes: (i) Consolidated Balance Sheets as of December 31, 2011 and 2010 (ii) Consolidated Statements of Operations for the years ended December 31, 2011 and 2010 (iii) Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2011 and 2010 (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010.

### **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 variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These statements are based on the Company's current expectations of future events and are subject to a number of risks and uncertainties that may cause the Company's actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include, continued ability to maintain positive cash flow from results of operations, continued evaluation of goodwill for impairment and the Company's development and production of competitive technologies in our market sector, among others. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. These risks and uncertainties are disclosed from time to time in the Company's filings with the Securities and Exchange Commission, the Company's press releases and in oral statements made by or with the approval of authorized personnel. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

### **Critical Accounting Policies**

#### *Estimates and assumptions*

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. 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. Management assumptions have been reasonably accurate in the past, and future estimates or assumptions are likely to be calculated on the same basis.

#### *Stock-based compensation*

The Company follows the provisions of Accounting Standards Codification (ASC) 718, Share-Based Payment. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For the performance-based options granted in 2010, the Company took into consideration guidance under ASC 718 and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. No performance-based options were granted in 2011. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of our shares using weekly price observations over an observation period 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 estimated forfeiture rate included in the option valuation was zero.

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

### *Revenue recognition*

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

### *Inventories*

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

### *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.

### *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 the disposition of Willtek, 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 carryforwards.

### *Uncertain tax position*

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

The Company has analyzed its filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns. As of December 31, 2011 and 2010, the Company has identified its federal tax return, its state tax return in New Jersey and its foreign return in Germany as major tax jurisdictions, as defined, in which it is required to file income tax returns. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in its consolidated financial statements.

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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, 2011 and 2010, and the Company does not anticipate that it is reasonably possible that any material increase or decrease in its unrecognized tax benefits will occur within twelve months.

### *Valuation of goodwill*

The Company reviews the goodwill of its subsidiary, Microlab, for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also reviews Microlab's goodwill annually in accordance with ASC 350, Accounting for Business Combinations, Goodwill, and Other Intangible Assets. The process of evaluating the potential impairment of goodwill is ongoing, subjective and requires significant judgment and estimates regarding future cash flows and forecasts. Goodwill represents the excess of the cost of an acquisition over fair value of net assets acquired. Testing for the impairment of goodwill involves a two step process. The first step of the impairment test requires the comparing of a reporting unit's fair value to its carrying value. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step must be performed to compute the amount of the impairment. In the second step, the impairment is computed by estimating the fair values of all recognized and unrecognized assets and liabilities of the reporting unit and comparing the implied fair value of reporting unit goodwill with the carrying amount of that unit's goodwill. As noted above, goodwill is attributable to one of the Company's reporting units, Microlab.

### *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 its 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.

### **Results of Operations**

#### **Year Ended December 31, 2011 Compared to 2010**

Net consolidated sales for the year ended December 31, 2011 were \$26,823,440 as compared to \$24,564,226 for the year ended December 31, 2010, an increase of \$2,259,214 or 9.2%. This increase was primarily the result of strong demand throughout 2011 for the Company's network solutions products for distributed antenna systems ( DAS ). The Company has experienced an increase in order activity due to commercial infrastructure development in support of the ongoing expansion and upgrade to DAS.

Net sales of the Company's network solutions products for the year ended December 31, 2011 were \$12,968,388 as compared to \$8,646,625 for the year ended December 31, 2010, an increase of \$4,321,763 or 50.0%. Net sales of network solutions products accounted for 48.3% and 35.2% of net consolidated sales for the years ended December 31, 2011 and 2010, respectively. The sales increase during 2011 was primarily due to the Company's growing participation in the DAS market through supply of its passive microwave components.

Net sales of the Company's test and measurement products for the year ended December 31, 2011 were \$13,855,052 as compared to \$15,917,601 for the year ended December 31, 2010, a decrease of \$2,062,549 or 13.0%. Net sales of test and measurement products accounted for 51.7% and 64.8% of net consolidated sales for the years ended December 31, 2011 and 2010, respectively. The sales decrease for 2011 was primarily due to lower order volume experienced during the first half of the year from government agencies and prime defense contractors and an overall softness in foreign markets throughout 2011, particularly Asia Pacific ( APAC ).

The Company's gross profit on consolidated net sales for the year ended December 31, 2011 was \$12,466,704 or 46.5% as compared to \$11,555,479 or 47.0% as reported in the previous year. Although gross profit dollars are higher in 2011 compared to 2010, gross profit margins are slightly lower primarily due to product mix, as the Company's network solutions products typically provide lower margins than its test and measurement instruments. Additionally, during 2011, the Company carried excess inventory in the amount of approximately

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\$270,000 relating to a recently discontinued product line. This inventory was sold in its entirety at cost which negatively impacted gross profit. Also contributing to lower margins for 2011 were severance costs incurred in the amount of approximately \$73,000 relating to the implementation of a cost reduction plan which included several manufacturing employees.

The Company's products consist of several models with varying degrees of capabilities which can be customized to meet particular customer requirements. They may be incorporated directly into the electronic equipment concerned or may be stand alone components or devices that are connected to, or used in conjunction with, such equipment from an external site, in the factory or in the field.

Prices of products range from approximately \$100 to \$100,000 per unit, with most sales occurring between approximately \$2,000 and \$35,000 per unit. The Company can experience variations in gross profit based upon the mix of these products sold as well as variations due to revenue volume and economies of scale. The Company will continue to rigidly monitor costs associated with material acquisition, manufacturing and production.

Operating expenses for the year ended December 31, 2011 were \$10,616,857 or 39.6% of net sales as compared to \$10,749,956 or 43.8% of net sales for the year ended December 31, 2010. For the year ended December 31, 2011 as compared to the prior year, operating expenses decreased by \$133,099 or 1.2%. Operating expenses are lower in 2011 due to a decrease in general and administrative expenses of \$358,051, offset by increased spending in both research and development of \$86,151 and sales and marketing expenses of \$138,801. The decrease in general and administrative expense is attributable to the reversal of a specific warranty accrual in the amount of \$240,000 relating to product shipped in 2008, a decrease in non-cash stock based compensation charges of \$43,025 and an overall reduction in certain administrative overhead expenses including rent, insurance and office supplies. The Company determined that there is a remote likelihood that any of these specific units will be returned and subsequently reversed the warranty accrual. Sales and marketing expenses were higher in 2011 primarily due to severance paid to certain sales employees in connection with the cost reduction plan mentioned above, and higher, order-specific commission paid to the Company's external, non-employee sales representatives.

Interest income decreased by \$19,214 for the year ended December 31, 2011. This decrease was primarily due to a lower average balance in the Company's interest bearing investment account in 2011. Substantially all of the Company's cash and cash equivalents are invested in money market funds.

Other income, net of other non-operating expense, increased by \$37,889 for the year ended December 31, 2011. This increase was primarily due to a realized gain from the sale of an investment security in 2011, partially offset by higher expenses incurred during 2011, as compared to the prior year, for services relating to the ground water testing being performed at the former site of the Company's subsidiary, Boonton. The Company has been testing the ground water in this site since 1982 in accordance with state regulations. The Company has hired a new environmental consultant to evaluate the results of the current remediation plan that has been in effect since 1982. The Company is diligently pursuing efforts to satisfy the requirements of the original plan and receive a new determination from the NJDEP. Management continues to be encouraged by recent test results which support improvements in ground water conditions over time. Overall data from testing in the Spring of 2011 indicates the continuation of a decreasing concentration trend at the site. The overall decrease supports the absence of a continuing source impacting ground water. The Company believes that its current practice and plan of groundwater testing will continue until an official notification from NJDEP is obtained and the Company is released from further obligations. 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 any additional contamination is identified and the NJDEP requires additional remediation.

For the year ended December 31, 2011, the Company realized a tax benefit of \$438,515. The tax benefit was primarily due to an increase in the Company's deferred tax asset, net of a valuation allowance, partially offset by a provision for state income taxes. For the year ended December 31, 2010, the Company realized a tax benefit of \$91,870. The tax benefit was primarily due to an increase in the Company's deferred tax asset, net of a valuation allowance, partially offset by an adjustment to the estimated 2009 carryback claim, due to the Company's finalizing of its 2009 federal tax return, and a provision for state income taxes.

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Income from continuing operations was \$2,429,648 or \$0.10 per share on a diluted basis for the year ended December 31, 2011 as compared to net income from continuing operations of \$1,015,043 or \$0.04 per share on a diluted basis for the year ended December 31, 2010, an increase of \$1,414,605. The increase was primarily due to the analysis mentioned above.

Loss from discontinued operations was \$1,742,853 or \$0.07 per share on a diluted basis for the year ended December 31, 2010. The 2010 loss was primarily due to an adjustment to the loss recognized on the sale of Willtek of \$430,565 and \$1,312,288 in operating losses in Willtek through the May 7, 2010 sale date.

Net income was \$2,429,648 or \$0.10 per share on a diluted basis for the year ended December 31, 2011 as compared to net loss of \$727,810 or \$0.03 per share on a diluted basis for the year ended December 31, 2010, an increase of \$3,157,458. The increase was primarily due to the analysis mentioned above.

### **Liquidity and Capital Resources**

The Company's working capital has increased by \$1,388,496 to \$24,558,819 at December 31, 2011, from \$23,170,323 at December 31, 2010. At December 31, 2011, the Company had a current ratio of 14.2 to 1, and a ratio of debt to tangible net worth of .14 to 1. At December 31, 2010, the Company had a current ratio of 8.3 to 1, and a ratio of debt to tangible net worth of .19 to 1.

The Company had cash and cash equivalents of \$12,089,782 at December 31, 2011, compared to a balance of \$13,643,220 at December 31, 2010. In January 2011, the Company paid approximately \$874,000 in disposition fees relating to the sale of Willtek which were recorded as accrued expenses in the Company's consolidated balance sheet at December 31, 2010. Additionally, in 2011, the Company repurchased approximately 1,293,000 shares of its outstanding common stock at a cost of approximately \$1,135,000. The Company believes its current level of cash is sufficient to fund the current operating, investing and financing activities.

The Company expects to realize tax benefits in future periods due to the available net operating loss carryforwards resulting from the disposition of Willtek 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 income taxes will be substantially reduced.

Operating activities provided \$138,735 in cash for the year ending December 31, 2011. For the year ended December 31, 2010, operating activities, including discontinued operations, used \$1,064,807 in cash flows. For 2011, cash provided by operations was primarily due to income from operations, a decrease in prepaid expenses and other assets, and an increase in income taxes payable, partially offset by a decrease in accounts payable, accrued expenses and other current liabilities, an increase in inventories and an increase in accounts receivable. For 2010, cash used for operations was primarily due to a decrease in accounts payable, accrued expenses and other current liabilities, a decrease in income taxes payable, and increases in inventory and accounts receivable, partially offset by a decrease in prepaid expenses and other assets.

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

Net cash used for investing activities for 2011 amounted to \$488,920 compared to net cash provided by investing activities of \$2,320,040 for the year ending December 31, 2010. For 2011, the use of cash was for capital expenditures. For 2010, the source of cash was proceeds relating to the disposition of Willtek, offset by capital expenditures.

Financing activities used \$1,203,253 in cash for the year ended December 31, 2011. The use of these funds was for the repurchase of treasury stock and periodic payments of a mortgage note. Financing activities used \$1,538,533 in cash for the year ended December 31, 2010. The use of these funds was for the final payoff on the Company's bank loan and periodic payments made on its mortgage note payable.

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In 2010, the Company satisfied the entire outstanding principal and interest due on its bank note payable through payment of \$1,475,149. Since this bank note was in principle a Euro denominated loan, the outstanding loan balance was subject to foreign currency fluctuations. The Company benefited from the weakening Euro at time of payment.

Table of Contractual Obligations

|                                | Table of Contractual Obligations |                   |                                 |           |
|--------------------------------|----------------------------------|-------------------|---------------------------------|-----------|
|                                | Total                            | Less than 1 Year  | Payments by Period<br>1-3 Years | 4-5 Years |
| Mortgage                       | \$ 2,702,912                     | \$ 73,697         | \$ 2,629,215                    | \$        |
| Facility Leases                | 942,563                          | 342,750           | 599,813                         |           |
| Operating and Equipment leases | 278,501                          | 74,267            | 204,234                         |           |
|                                | <u>\$ 3,923,976</u>              | <u>\$ 490,714</u> | <u>\$ 3,433,262</u>             | <u>\$</u> |

The Company maintains a line of credit with its investment bank. The credit facility provides borrowing availability of up to 100% of the Company's money market account balance and 99% of the Company's short-term investment securities and, under the terms and conditions of the loan agreement, is fully secured by said money fund account and any short-term investment holdings. Advances under the facility will bear interest at a variable rate equal to the London InterBank Offered Rate ( LIBOR ) in effect at time of borrowing. Additionally, under the terms and conditions of the loan agreement, there is no annual fee and any amount outstanding under the loan facility may be paid at any time in whole or in part without penalty. As of December 31, 2011, the Company had no borrowings outstanding under the facility and approximately \$5,500,000 of borrowing availability. The Company has no current plans to borrow from this credit facility as it believes cash generated from operations will adequately meet near-term working capital requirements.

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

### *Off-Balance Sheet Arrangements*

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

### *Inflation and Seasonality*

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

### *Recent Accounting Pronouncements Affecting the Company*

In September 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 will be effective for fiscal and interim reporting periods within those years beginning after December 15, 2011. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. This ASU is effective for the Company beginning January 1, 2012. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This standard amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This ASU is effective for financial periods beginning after December 15, 2011 and is to be applied prospectively. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In December 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (amendments to FASB ASC Topic 350, Intangibles, Goodwill and Other). The objective of this ASU is to address diversity in practice in the application of goodwill impairment testing by entities with reporting units with zero or negative carrying amounts, eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. This ASU is effective for interim periods after January 1, 2011. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### ***Industry Risk***

The electronic test and measurement industry is cyclical which can cause significant fluctuations in sales, gross profit margins and profits, from year to year. It is difficult to predict the timing of the changing cycles in the electronic test and measurement industry.

### **Item 8. Financial Statements and Supplementary Data**

The response to this item is submitted in a separate section of this report.

### **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 Securities and Exchange Commission ( 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 at these reasonable assurance levels.



(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 generally accepted accounting principles. 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, 2011, 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 (the COSO criteria). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

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 from the auditor attestation requirement of Section 404 (b) of the Sarbanes-Oxley Act.

(c) Changes in Internal Controls over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified 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.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

The information required under this item is set forth in the Company's Definitive Proxy Statement relating to the Company's 2012 annual meeting of shareholders and is incorporated herein by reference. Such Proxy Statement will be filed with the Commissions within 120 days of the Company's year-end.

**Item 11. Executive Compensation**

The information required under this item is set forth in the Company's Definitive Proxy Statement relating to the Company's 2012 annual meeting of shareholders and is incorporated herein by reference. Such Proxy Statement will be filed with the Commissions within 120 days of the Company's year-end.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item is set forth in the Company's Definitive Proxy Statement relating to the Company's 2012 annual meeting of shareholders and is incorporated herein by reference. Such Proxy Statement will be filed with the Commissions within 120 days of the Company's year-end.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required under this item is set forth in the Company's Definitive Proxy Statement relating to the Company's 2012 annual meeting of shareholders and is incorporated herein by reference. Such Proxy Statement will be filed with the Commissions within 120 days of the Company's year-end.

**Item 14. Principal Accountant Fees and Services**

The information required under this item is set forth in the Company's Definitive Proxy Statement relating to the Company's 2012 annual meeting of shareholders and is incorporated herein by reference. Such Proxy Statement will be filed with the Commissions within 120 days of the Company's year-end.

PART IV

**Item 15. Exhibits and Financial Statement Schedules**

- (a) (1) Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of December 31, 2011 and 2010  
Consolidated Statements of Operations for the Two Years in the Period ended December 31, 2011  
Consolidated Statements of Changes in Shareholders' Equity for the Two Years in the Period ended December 31, 2011  
Consolidated Statements of Cash Flows for the Two Years in the Period ended December 31, 2011  
Notes to Consolidated Financial Statements

All other schedules have been omitted because the required information is included in the financial statements or notes thereto or because they are not required.

(2) Exhibits

- 2.1 Asset Purchase Agreement, dated as of April 9, 2010, by and among the Registrant, Willtek Communications GmbH, Willtek Communications SARL, Willtek Communications, Inc., Aeroflex Incorporated, Aeroflex Wichita, Inc., Aeroflex GmbH and Aeroflex SAS\* (10)
- 3.1 Certificate of Incorporation, as amended (1)
- 3.2 Amended and Restated By-laws (1)
- 3.3 Amendment to the Certificate of Incorporation (2)
- 3.4 Amendment to the Certificate of Incorporation (3)
- 4.2 Form of Stock Certificate (1)
- 10.1 Summary Plan Description of Profit Sharing Plan of the Registrant (1)
- 10.2 Incentive Stock Option Plan of the Registrant and related agreement (1)
- 10.3 Amendment to Registrant's Incentive Stock Option Plan and related agreement (3)
- 10.4 Wireless Telecom Group, Inc. 2000 Stock Option Plan (4)
- 10.5 Stock Purchase Agreement dated December 21, 2001, by and among the Company, Microlab/FXR and Harry A. Augenblick (5)
- 10.6 Stock Purchase Agreement made as of December 21, 2001, by and among the Company and Microlab/FXR Employees Stock Ownership Plan (5)
- 10.7 Amended and Restated Stock Purchase Agreement, dated as of March 29, 2005, among the Company, Willtek Communications GmbH, Investcorp Technology Ventures, L.P., and Damany Holding GmbH (6)
- 10.8 Amended and Restated Loan Agreement, dated March 29, 2005, by and among Investcorp Technology Ventures, L.P., Willtek Communications GmbH and Wireless Telecom Group, Inc. (6)
- 10.9 Severance Agreement, dated March 29, 2005, between Wireless Telecom Group, Inc. and Paul Genova (8)

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- 10.10 Employment and Severance Agreement, dated January 23, 2006, between Wireless Telecom Group, Inc. and James M. Johnson (9)
- 10.11 Employment and Severance Agreement, dated February 6, 2007, between Wireless Telecom Group, Inc. and Lawrence Henderson (9)
- 14 Code of Ethics (7)
- 23.1 Consent of Independent Registered Public Accounting Firm (PKF O Connor Davies, A Division of O Connor Davies, LLP) filed herewith as Exhibit 23.1
- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. section 1350
- 32.2 Certification pursuant to 18 U.S.C. section 1350
- 101 The following financial statements from Wireless Telecom Group, Inc.'s Annual Report of Form 10-K for the year ended December 31, 2011, filed on March 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, (iv) consolidated statement of shareholders' equity, and (v) the notes to the consolidated financial statements. (11)

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\* All exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The Registrant agrees to furnish supplementally a copy of all omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-18 (File No.33-42468-NY) and incorporated by reference herein.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 1994 and incorporated by reference herein.
- (3) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 1995 and incorporated by reference herein.
- (4) Filed as Annex B to the Definitive Proxy Statement of the Company filed on July 17, 2000 and incorporated by reference herein.
- (5) Filed as an exhibit to the Company's Current Report on Form 8-K, dated December 21, 2001, filed with the Commission on January 4, 2002 and incorporated by reference herein.
- (6) Filed as an exhibit to the Company's Current Report on Form 8-K, dated March 29, 2005, filed with the Commission on March 29, 2005 and incorporated by reference herein.
- (7) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated by reference herein.
- (8) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and incorporated by reference herein.
- (9) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and incorporated by reference herein.
- (10) Filed as an exhibit to the Company's Amendment No. 1 to Annual Report of Form 10-K/A for the year ended December 31, 2009 and incorporated by reference herein.
- (11) As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WIRELESS TELECOM GROUP, INC.

Date: March 30, 2012

By: /s/ Paul Genova

\_\_\_\_\_  
Paul Genova  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Name</u>   | <u>Title</u>                   | <u>Date</u>    |
|---|--------------------------------|----------------|
| <u>/s/ Adrian Nemcek</u><br>Adrian Nemcek             | Chairman of the Board          | March 30, 2012 |
| <u>/s/ Paul Genova</u><br>Paul Genova                 | Chief Executive Officer        | March 30, 2012 |
| <u>/s/ Robert Censullo</u><br>Robert Censullo         | Acting Chief Financial Officer | March 30, 2012 |
| <u>/s/ Henry Bachman</u><br>Henry Bachman             | Director                       | March 30, 2012 |
| <u>/s/ Rick Mace</u><br>Rick Mace                     | Director                       | March 30, 2012 |
| <u>/s/ Joseph Garrity</u><br>Joseph Garrity           | Director                       | March 30, 2012 |
| <u>/s/ Anand Radhakrishnan</u><br>Anand Radhakrishnan | Director                       | March 30, 2012 |
| <u>/s/ Glenn Luk</u><br>Glenn Luk                     | Director                       | March 30, 2012 |

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**Wireless Telecom Group, Inc.**

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**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of Wireless Telecom Group, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wireless Telecom Group, Inc. and Subsidiaries at December 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/PKF O'Connor Davies  
A Division of O'Connor Davies, LLP

March 29, 2012  
New York, NY

**CONSOLIDATED BALANCE SHEETS****Wireless Telecom Group, Inc.**

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2011                 | 2010                 |
| <b>-ASSETS-</b>  |                      |                      |
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 12,089,782        | \$ 13,643,220        |
| Accounts receivable - net of allowance for doubtful accounts of \$122,535 and \$73,819 for 2011 and 2010, respectively   | 4,670,630            | 4,303,720            |
| Inventories  | 7,577,051            | 6,935,172            |
| Deferred income taxes - current  | 1,761,429            | 994,215              |
| Prepaid expenses and other current assets  | 319,690              | 465,798              |
| <b>TOTAL CURRENT ASSETS</b>  | <b>26,418,582</b>    | <b>26,342,125</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT - NET</b>   | <b>4,349,150</b>     | <b>4,333,690</b>     |
| <b>OTHER ASSETS:</b>   |                      |                      |
| Goodwill   | 1,351,392            | 1,351,392            |
| Deferred income taxes non-current  | 4,684,571            | 4,699,175            |
| Other assets   | 898,265              | 892,433              |
| <b>TOTAL OTHER ASSETS</b>  | <b>6,934,228</b>     | <b>6,943,000</b>     |
| <b>TOTAL ASSETS</b>  | <b>\$ 37,701,960</b> | <b>\$ 37,618,815</b> |
| <b>- LIABILITIES AND SHAREHOLDERS EQUITY -</b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Accounts payable   | \$ 841,582           | \$ 743,398           |
| Accrued expenses and other current liabilities   | 944,484              | 2,360,057            |
| Current portion of mortgage payable  | 73,697               | 68,347               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>1,859,763</b>     | <b>3,171,802</b>     |
| <b>LONG TERM LIABILITIES:</b>  |                      |                      |
| Mortgage payable   | 2,629,215            | 2,702,912            |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                      |                      |
| <b>SHAREHOLDERS EQUITY:</b>  |                      |                      |
| Preferred stock, \$.01 par value, 2,000,000 shares authorized, none issued   |                      |                      |
| Common stock, \$.01 par value, 75,000,000 shares authorized, 28,883,861 and 28,753,861 shares issued, 24,494,906 and 25,658,203 shares outstanding, respectively | 288,839              | 287,539              |



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|  |                          |                      |
|--|--------------------------|----------------------|
| Additional paid-in capital   | <b>37,918,844</b>        | 37,746,005           |
| Retained earnings  | <b>3,687,019</b>         | 1,257,371            |
| Treasury stock, at cost 4,388,955 and 3,095,658 shares, respectively | <b>(8,681,720)</b>       | (7,546,814)          |
|  | <u><b>33,212,982</b></u> | <u>31,744,101</u>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>                     | <b>\$ 37,701,960</b>     | <b>\$ 37,618,815</b> |

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**Wireless Telecom Group, Inc.**

|   | For the Year Ended December 31, |                      |
|---|---------------------------------|----------------------|
|   | 2011                            | 2010                 |
| <b>NET SALES</b>  | <b>\$ 26,823,440</b>            | <b>\$ 24,564,226</b> |
| <b>COST OF SALES</b>  | <b>14,356,736</b>               | <b>13,008,747</b>    |
| <b>GROSS PROFIT</b>   | <b>12,466,704</b>               | <b>11,555,479</b>    |
| <b>OPERATING EXPENSES</b>   |                                 |                      |
| Research and development  | 2,260,949                       | 2,174,798            |
| Sales and marketing   | 4,496,825                       | 4,358,024            |
| General and administrative  | 3,859,083                       | 4,217,134            |
| <b>TOTAL OPERATING EXPENSES</b>   | <b>10,616,857</b>               | <b>10,749,956</b>    |
| <b>OPERATING INCOME</b>   | <b>1,849,847</b>                | <b>805,523</b>       |
| <b>OTHER (INCOME) EXPENSE</b>   |                                 |                      |
| Interest (income)   | (3,441)                         | (22,655)             |
| Interest expense - net  | 207,188                         | 212,149              |
| Other (income) net  | (345,033)                       | (307,144)            |
| <b>TOTAL OTHER (INCOME) EXPENSE</b>   | <b>(141,286)</b>                | <b>(117,650)</b>     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE (BENEFIT) FROM INCOME TAXES</b> | <b>1,991,133</b>                | <b>923,173</b>       |
| <b>(BENEFIT) FROM INCOME TAXES</b>  | <b>(438,515)</b>                | <b>(91,870)</b>      |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                                    | <b>2,429,648</b>                | <b>1,015,043</b>     |
| <b>(LOSS) FROM DISCONTINUED OPERATIONS NET OF TAXES</b>                     |                                 | <b>(1,742,853)</b>   |
| <b>NET INCOME (LOSS)</b>  | <b>\$ 2,429,648</b>             | <b>\$ (727,810)</b>  |
| <b>INCOME (LOSS) PER COMMON SHARE - BASIC</b>                               |                                 |                      |
| Continuing operations   | <b>\$ 0.10</b>                  | <b>\$ 0.04</b>       |

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|                         |         |           |
|-------------------------|---------|-----------|
| Discontinued operations |         | (0.07)    |
|                         | \$ 0.10 | \$ (0.03) |

**NET INCOME (LOSS) PER COMMON SHARE - DILUTED**

|                         |         |           |
|-------------------------|---------|-----------|
| Continuing operations   | \$ 0.10 | \$ 0.04   |
| Discontinued operations |         | (0.07)    |
|                         | \$ 0.10 | \$ (0.03) |

**WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:**

|         |                   |            |
|---------|-------------------|------------|
| Basic   | <b>24,963,271</b> | 25,658,203 |
| Diluted | <b>25,138,035</b> | 25,685,291 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****Wireless Telecom Group, Inc.**

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock at Cost | Total         |
|--|-----------------|----------------------------------|----------------------|---|---------------------------|---------------|
| BALANCE AT DECEMBER 31,<br>2009                      | \$ 287,539      | \$ 37,528,841                    | \$ 1,985,181         | \$ 934,755                                      | \$ (7,546,814)            | \$ 33,189,502 |
| Net (loss)   |                 |                                  | (727,810)            |   |                           | (727,810)     |
| Foreign currency translation                         |                 |                                  |                      | (31,320)  |                           | (31,320)      |
| Amount recognized for employee<br>pension obligation |                 |                                  |                      | (903,435)                                       |                           | (903,435)     |
| Comprehensive income (loss)                          |                 |                                  |                      |   |                           | (1,662,565)   |
| Stock compensation expense                           |                 | 217,164                          |                      |   |                           | 217,164       |
| BALANCE AT DECEMBER 31,<br>2010                      | \$ 287,539      | \$ 37,746,005                    | \$ 1,257,371         | \$ 0  | \$ (7,546,814)            | \$ 31,744,101 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Wireless Telecom Group, Inc.

|   | <u>Common<br/>Stock</u> | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Treasury<br/>Stock at<br/>Cost</u> | <u>Total</u>         |
|---|-------------------------|---|------------------------------|---|---------------------------------------|----------------------|
| Net income                                |                         |   | 2,429,648                    |   |                                       | 2,429,648            |
| Shares issued under restricted stock plan | 1,300                   | (1,300)                                   |                              |   |                                       |                      |
| Stock compensation expense                |                         | 174,139                                   |                              |   |                                       | 174,139              |
| Repurchase of treasury stock              |                         |   |                              |   | (1,134,906)                           | (1,134,906)          |
| <b>BALANCE AT DECEMBER 31, 2011</b>       | <b>\$ 288,839</b>       | <b>\$ 37,918,844</b>                      | <b>\$ 3,687,019</b>          | <b>\$ 0</b>   | <b>\$ (8,681,720)</b>                 | <b>\$ 33,212,982</b> |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS****Wireless Telecom Group, Inc.**

|   | For the Year Ended December<br>31, |                      |
|---|------------------------------------|----------------------|
|   | 2011                               | 2010                 |
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |                                    |                      |
| Net income (loss)   | \$ 2,429,648                       | \$ (727,810)         |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: |                                    |                      |
| Depreciation  | 473,460                            | 621,706              |
| Amortization  |                                    | 13,906               |
| Loss on sale of discontinued operations   |                                    | 430,565              |
| Stock compensation expense  | 174,139                            | 217,164              |
| Deferred rent   |                                    | (53,025)             |
| Deferred income taxes   | (752,610)                          | (668,886)            |
| Provision for (recovery of) doubtful accounts   | 48,716                             | (106,247)            |
| Changes in assets and liabilities:  |                                    |                      |
| Accounts receivable   | (415,626)                          | (269,247)            |
| Inventory   | (641,879)                          | (314,836)            |
| Income taxes payable  | 43,364                             | (253,543)            |
| Prepaid expenses and other assets   | 96,912                             | 2,048,748            |
| Accounts payable, accrued expenses and other current liabilities                                    | (1,317,389)                        | (2,003,302)          |
| <b>Net cash provided by (used for) operating activities</b>   | <b>138,735</b>                     | <b>(1,064,807)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                    |                      |
| Capital expenditures  | (488,920)                          | (429,935)            |
| Proceeds from dispositions of Willtek   |                                    | 2,749,975            |
| <b>Net cash provided by (used for) investing activities</b>   | <b>(488,920)</b>                   | <b>2,320,040</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                    |                      |
| Payments of mortgage note   | (68,347)                           | (63,384)             |
| Payment on bank note payable  |                                    | (1,475,149)          |
| Repurchase of treasury stock  | (1,134,906)                        |                      |
| <b>Net cash (used for) financing activities</b>   | <b>(1,203,253)</b>                 | <b>(1,538,533)</b>   |
| Effect of foreign currency on cash and cash equivalents   |                                    | (149,862)            |
| <b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>(1,553,438)</b>                 | <b>(433,162)</b>     |
| Cash and cash equivalents, at beginning of year   | 13,643,220                         | 14,076,382           |
| <b>CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>  | <b>\$ 12,089,782</b>               | <b>\$ 13,643,220</b> |

**SUPPLEMENTAL INFORMATION:**

Cash paid during the year for:

|          |    |         |    |         |
|----------|----|---------|----|---------|
| Taxes    | \$ | 267,151 | \$ | 537,332 |
| Interest | \$ | 206,965 | \$ | 238,707 |

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Wireless Telecom Group, Inc.

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

*Organization and Basis of Presentation:*

Wireless Telecom Group, Inc. and Subsidiaries (the Company), develops and manufactures a wide variety of electronic noise sources, testing and measurement instruments and high-power, passive microwave components, which it sells to customers throughout the United States and worldwide through its foreign sales corporation and foreign distributors to commercial and government customers in the electronics industry. The consolidated financial statements include the accounts of Wireless Telecom Group, Inc. and its wholly-owned subsidiaries, Boonton Electronics Corporation (Boonton), Microlab/FXR (Microlab), Willtek Communications GmbH (Willtek) through May 7, 2010, WTG Foreign Sales Corporation and NC Mahwah, Inc. All intercompany transactions are eliminated in consolidation.

On May 7, 2010, the Company sold substantially all the operating assets and certain liabilities of its foreign subsidiary, Willtek. Accordingly, the operating activities of Willtek for the year ended December 31, 2010 are included in the Company's financial statements as discontinued operations.

In December 2011, management reviewed and determined that the Company's operating businesses should be disclosed as separate reportable segments based on how management currently evaluates, manages and discusses, both internally and with its board of directors, its operations and the operations of its wholly-owned subsidiaries Boonton and Microlab. Therefore, the Company has revised its segment reporting to reflect two reportable segments, test and measurement and network solutions. The test and measurement segment is comprised primarily of the operations of Boonton and Noisecom. The network solutions segment is comprised primarily of the operations of Microlab. Relative prior period information has been revised accordingly. The Company believes the revised segment reporting better reflects how its operating segments are managed and each segment's performance is evaluated.

*Use of Estimates:*

In preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), management makes certain estimates and assumptions, where applicable, 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. Actual results could differ from those estimates.

*Concentrations of Credit Risk and Fair Value:*

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

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

Concentrations of credit risk with respect to accounts receivable are limited due to the Company's large customer base. However, at December 31, 2011, primarily all of the Company's receivables do pertain to the telecommunications industry.

The carrying amounts of cash and cash equivalents, trade receivables, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate fair value due to the short-term nature of these instruments. At December 31, 2011, the fair value (estimated based upon expected cash outflows discounted at current market rates) and carrying value of fixed rate mortgage amounted to \$2,800,811 and \$2,702,912, respectively. At December 31, 2010, the fair value and carrying value of fixed rate mortgage amounted to \$2,860,698 and \$2,771,259, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*Cash and Cash Equivalents:*

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of operating and money market accounts.

The Company classifies investments as short-term investments if their original or remaining maturities are greater than three months and their remaining maturities are one year or less. As of December 31, 2011, substantially all of the Company's investments consisted of cash and cash equivalents.

*Accounts Receivable:*

The Company accounts for uncollectible accounts under the allowance method. Potentially uncollectible accounts are provided for throughout the year and actual bad debts are written off to the allowance on a timely basis.

*Inventories:*

Raw material inventories are stated at the lower of cost (first-in, first-out method) or market. Finished goods and work-in-process are valued at average cost of production, which includes material, labor and manufacturing expenses. Inventory carrying value is net of inventory reserves of \$608,540 and \$452,310 as of December 31, 2011 and 2010, respectively. In 2010, during a review of its inventory reserves, the Company identified and scrapped \$243,713 of obsolete inventory.

Inventories consist of:

|                 | December 31,        |                     |
|-----------------|---------------------|---------------------|
|                 | 2011                | 2010                |
| Raw materials   | \$ 5,094,403        | \$ 4,632,195        |
| Work-in-process | 831,129             | 830,684             |
| Finished goods  | 1,651,519           | 1,472,293           |
|                 | <b>\$ 7,577,051</b> | <b>\$ 6,935,172</b> |

*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 following useful lives:

|                           |            |
|---------------------------|------------|
| Building and improvements | 39 years   |
| Machinery and equipment   | 5-10 years |
| Furniture and fixtures    | 5-10 years |

Transportation 3-5  
equipment years

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Wireless Telecom Group, Inc.**

**NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

***Goodwill:***

The Company reviews the goodwill of its subsidiary, Microlab, for impairment whenever events or changes in circumstances indicate that the carrying amount of this asset may not be recoverable, and also reviews Microlab's goodwill annually in accordance with Accounting Standards Codification (ASC) 350, Accounting for Business Combinations, Goodwill, and Other Intangible Assets. The process of evaluating the potential impairment of goodwill is ongoing, subjective and requires significant judgment and estimates regarding future cash flows and forecasts. Goodwill represents the excess of the cost of an acquisition over fair value of net assets acquired. Testing for the impairment of goodwill involves a two step process. The first step of the impairment test requires the comparing of a reporting unit's fair value to its carrying value. If the carrying value is less than the fair value, no impairment exists and the second step is not performed. If the carrying value is higher than the fair value, there is an indication that impairment may exist and the second step must be performed to compute the amount of the impairment.

In the second step, the impairment is computed by estimating the fair value of all recognized and unrecognized assets and liabilities of the reporting unit and comparing the implied fair value of reporting unit goodwill with the carrying amount of that unit's goodwill. As noted above, goodwill is attributable to one of the Company's reporting units, Microlab.

In the fourth quarters of 2011 and 2010, management performed their annual impairment test of goodwill which indicated that Microlab's fair value was significantly in excess of its carrying value, therefore, there was no impairment for either of the periods presented.

***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 its 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.

***Revenue Recognition:***

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

***Research and Development Costs:***

Research and development costs are charged to operations when incurred. The amounts charged to continuing operations for the years ended December 31, 2011 and 2010 were \$2,260,949 and \$2,174,798, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Wireless Telecom Group, Inc.**

**NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

***Advertising Costs:***

Advertising expenses are charged to operations during the year in which they are incurred and aggregated \$266,667 and \$358,248 for the years ended December 31, 2011 and 2010, respectively.

***Stock-Based Compensation:***

The Company follows the provisions of ASC 718, *Share-Based Payment*. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For the performance-based options granted in 2010, the Company took into consideration guidance under ASC 718 and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected option life is derived from assumed exercise rates based upon historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The expected volatility is based upon historical volatility of our shares using weekly price observations over an observation period 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 estimated forfeiture rate included in the option valuation was zero.

Management estimates are necessary in determining compensation expense for stock options with performance-based vesting criteria. Compensation expense for this type of stock-based award is recognized over the period from the date the performance conditions are determined to be probable of occurring through the 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 the disposition of Willtek, 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 carryforwards.

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

The Company has analyzed its filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns. As of December 31, 2011 and 2010, the Company has identified its federal tax return, its state tax return in New Jersey and its foreign return in Germany as major tax jurisdictions, as defined, in which it is required to file income tax returns. Based on the evaluations noted above, the Company has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in its consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Based on a review of tax positions for all open years and contingencies as set out in 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, 2011 and 2010, and the Company does not anticipate that it is reasonably possible that any material increase or decrease in its unrecognized tax benefits will occur within twelve months.

*Income (Loss) Per Common Share:*

Basic income (loss) per share is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period and, when dilutive, potential shares from stock options and warrants to purchase common stock, using the treasury stock method. In accordance with ASC 260, Earnings Per Share, the following table reconciles basic shares outstanding to fully diluted shares outstanding.

|   | Years Ended December<br>31, |            |
|---|-----------------------------|------------|
|   | 2011                        | 2010       |
| Weighted average number of common shares outstanding - Basic                | 24,963,271                  | 25,658,203 |
| Potentially dilutive stock options  | 174,764                     | 27,088     |
| Weighted average number of common and equivalent shares outstanding-Diluted | 25,138,035                  | 25,685,291 |

Common stock options are included in the diluted income (loss) per share calculation only when option exercise prices are lower than the average market price of the common shares for the period presented. The weighted average number of common stock options not included in diluted income (loss) per share, because the effects are anti-dilutive, was 2,286,438 and 2,753,472 for 2011 and 2010, respectively.

*Subsequent events:*

The Company has evaluated subsequent events and, except for the event described with respect to the granting of restricted stock (see Note 13), the Company has determined that there were no subsequent events or transactions requiring recognition or disclosure in the consolidated financial statements.

*Recent Accounting Pronouncements Affecting the Company:*

In September 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-08, Guidance on Testing Goodwill for Impairment. ASU 2011-08 gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU 2011-08 will be effective for fiscal and interim reporting periods within those years beginning after December 15, 2011. The Company does

not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

**NOTE 1 - DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This update eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. This ASU is effective for the Company beginning January 1, 2012. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This standard amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This ASU is effective for financial periods beginning after December 15, 2011 and is to be applied prospectively. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In December 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (amendments to FASB ASC Topic 350, Intangibles, Goodwill and Other). The objective of this ASU is to address diversity in practice in the application of goodwill impairment testing by entities with reporting units with zero or negative carrying amounts, eliminating an entity's ability to assert that a reporting unit is not required to perform Step 2 because the carrying amount of the reporting unit is zero or negative despite the existence of qualitative factors that indicate the goodwill is more likely than not impaired. This ASU is effective for interim periods after January 1, 2011. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements.

**Reclassifications:**

Certain information from the prior year's presentation has been reclassified to conform to the current year's reporting presentation, including the effect of reporting Willtek as discontinued operations.

**NOTE 2 DISCONTINUED OPERATIONS:**

The operating activities of Willtek for the year ended December 31, 2010 are included in the Company's consolidated statement of operations and consolidated statement of cash flows as discontinued operations (see Note 1). The following table summarizes the components of discontinued operations for the year ended December 31, 2010:

|  | For the Year<br>Ended<br>December<br>31, 2010 |
|--|---|
| Net sales  | \$ 6,642,152                                  |
| Gross profit                                     | 2,609,331                                     |
| (Loss) from discontinued operations before taxes | (1,313,032)                                   |
| (Benefit) for income taxes                       | (744)   |
| (Loss) from discontinued operations              | (1,312,288)                                   |
| (Loss) on sale of discontinued operations        | (430,565)                                     |
| Net (loss) from discontinued operations          | \$ (1,742,853)                                |





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

**NOTE 2 DISCONTINUED OPERATIONS (Continued):**

Cash flows from discontinued operations for the year ended December 31, 2010 are combined with the cash flows from operations within each of the three categories presented below. Cash flows from discontinued operations for the year ended December 31, 2010 are as follows:

|                                      | For the Year<br>Ended<br>December 31,<br>2010 |
|--------------------------------------|---|
| Cash flows from operating activities | \$ (321,147)                                  |
| Cash flows from investing activities | \$ (3,136)                                    |
| Cash flows from financing activities | \$  |

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:**

Property, plant and equipment, consists of the following:

|                                | December 31,        |              |
|--------------------------------|---------------------|--------------|
|                                | 2011                | 2010         |
| Building and improvements      | \$ 3,557,186        | \$ 3,557,186 |
| Machinery and equipment        | 3,647,170           | 3,163,445    |
| Furniture and fixtures         | 99,282              | 99,282       |
| Transportation equipment       | 104,271             | 145,867      |
| Leasehold improvements         | 1,078,004           | 1,072,810    |
|                                | <b>8,485,913</b>    | 8,038,590    |
| Less: accumulated depreciation | <b>4,836,763</b>    | 4,404,900    |
|                                | <b>3,649,150</b>    | 3,633,690    |
| Add: land                      | <b>700,000</b>      | 700,000      |
|                                | <b>\$ 4,349,150</b> | \$ 4,333,690 |

Depreciation expense from continuing operations of \$473,460 and \$529,448 was recorded for the years ended December 31, 2011 and 2010, respectively.

**NOTE 4 - OTHER ASSETS:**

Other assets consist of the following:

|                         | December 31,      |                   |
|-------------------------|-------------------|-------------------|
|                         | 2011              | 2010              |
| Product demo assets     | <b>\$ 610,933</b> | \$ 618,674        |
| Building escrow reserve | <b>232,666</b>    | 222,720           |
| Security deposit        | <b>50,000</b>     | 50,000            |
| Miscellaneous           | <b>4,666</b>      | 1,039             |
| <b>Total</b>            | <b>\$ 898,265</b> | <b>\$ 892,433</b> |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 5 - ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities consist of the following:

|                              | December 31,      |                     |
|------------------------------|-------------------|---------------------|
|                              | 2011              | 2010                |
| Payroll and related benefits | \$ 452,216        | \$ 590,735          |
| Commissions                  | 150,006           | 44,394              |
| Professional fees            | 78,746            | 25,739              |
| Goods received not invoiced  | 76,955            | 91,214              |
| Warranty reserve             | 75,000            | 315,000             |
| Accrued disposition costs    | 71,012            | 1,052,074           |
| Other                        | 40,549            | 240,901             |
|                              | <u>          </u> | <u>          </u>   |
| Total                        | <u>\$ 944,484</u> | <u>\$ 2,360,057</u> |

## NOTE 6 - MORTGAGE PAYABLE LONG TERM:

The Company has a mortgage payable secured by a certain property in the amount of \$2,702,912. This note bears interest at an annual rate of 7.45%, requires monthly payments of principal and interest of \$23,750 and matures in August 2013.

Mortgage principal payments for the next two years are \$73,697 and \$2,629,215, respectively, with a balloon payment due in August 2013 of \$2,593,356.

## NOTE 7 - SHAREHOLDERS EQUITY:

During 2000, shareholders approved the Company's 2000 Stock Option Plan (the 2000 Plan). The 2000 Plan provides for the grant of Incentive Stock Options (ISOs) and Non-Qualified Stock Options (NQSOs) in compliance with the Code to employees, officers, directors, consultants and advisors of the Company who are expected to contribute to the Company's future growth and success. Under the original 2000 Plan, 1,500,000 shares of common stock were reserved for issuance upon the exercise of options. On July 6, 2006, the Company's shareholders approved by vote to amend and restate the 2000 Plan (the Amended and Restated 2000 Plan), authorizing the grant of an additional 2,000,000 shares of common stock options. On September 17, 2008, shareholders further approved an amendment to the Company's Amended and Restated 2000 Plan providing for an additional 1,000,000 shares of the Company's common stock that may be available for future grants under the plan.

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

Under the Company's stock option plans, options may be granted to purchase shares of the Company's common stock exercisable at prices generally equal to or above the fair market value on the date of the grant.

On December 21, 2010, upon the unanimous recommendation of the Compensation Committee, the Board of Directors approved the grant of performance-based stock options to certain employees of the Company. Accordingly, the Company entered into stock option agreements dated as of December 21, 2010, pursuant to which certain employees of the Company were awarded options to

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purchase collectively up to 300,000 shares of the Company's common stock at an exercise price of \$0.78 per share, representing a 5% premium over the closing price of the Company's common stock reported on the NYSE Amex on December 21, 2010, the date of grant.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 7 - SHAREHOLDERS' EQUITY (Continued):

On November 8, 2010, upon the unanimous recommendation of the Compensation Committee, the Board of Directors approved the grant of performance-based stock options to the Company's Acting Chief Financial Officer (Acting CFO). Accordingly, the Company entered into stock option agreements dated as of November 8, 2010, pursuant to which the Company's Acting CFO was awarded options to purchase up to 50,000 shares of the Company's common stock at an exercise price of \$0.75 per share, representing a 5% premium over the closing price of the Company's common stock reported on the NYSE Amex on November 8, 2010, the date of grant.

On April 15, 2010, upon the unanimous recommendation of the Compensation Committee, the Board of Directors approved the grant of performance-based stock options to the Company's Vice President of Global Sales and Marketing. Accordingly, the Company entered into stock option agreements dated as of April 15, 2010, pursuant to which the Company's executive was awarded options to purchase up to 300,000 shares of the Company's common stock at an exercise price of \$0.96 per share, representing a 5% premium over the average closing bid and asked prices of the Company's common stock for the five trading days previous to the date of grant, as reported on the NYSE Amex.

Under the terms of the performance-based stock option agreements, provided the employee remains in the continuous service of the Company at such times, the options will fully vest and become exercisable upon the earlier to occur of (a) the date on which the Board shall have determined that specific revenue and operating income targets have been met or (b) the date on which a Change-of-Control (as defined in the option agreements) of the Company is consummated, provided that all consideration in exchange therefore to which the employee may become entitled as a result of such Change-of-Control of the Company shall not be delivered to the employee until the earlier of (i) the date on which the employee's employment with the Company is Involuntarily Terminated (as defined in the option agreements) following the consummation of such Change-of-Control or (ii) the date that is six months next following the date on which such Change-of-Control is consummated.

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

|                                | Options   | Weighted Average<br>Exercise Price |
|--------------------------------|-----------|------------------------------------|
| Outstanding, December 31, 2009 | 1,588,967 | \$ 2.54                            |
| Granted                        |           |                                    |
| Exercised                      |           |                                    |
| Forfeited                      |           |                                    |
| Canceled/Expired               | (445,300) | \$ 2.36                            |
| Outstanding, December 31, 2010 | 1,143,667 | \$ 2.60                            |
| Granted                        |           |                                    |
| Exercised                      |           |                                    |
| Forfeited                      |           |                                    |
| Canceled/Expired               | (135,000) | \$ 2.57                            |
| Outstanding, December 31, 2011 | 1,008,667 | \$ 2.61                            |
| Options exercisable:           |           |                                    |
| December 31, 2010              | 1,082,917 | \$ 2.58                            |
| December 31, 2011              | 1,008,667 | \$ 2.61                            |

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The aggregate intrinsic value of options outstanding as of December 31, 2011 and 2010 were \$388,150 and \$93,050, respectively. The aggregate intrinsic value of options exercisable as of December 31, 2011 and 2010 were \$0.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 7 - SHAREHOLDERS EQUITY (Continued):

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

|                                       | Options           | Weighted Average<br>Exercise Price | Aggregate<br>Intrinsic Value |
|---------------------------------------|-------------------|------------------------------------|------------------------------|
|                                       | <u>          </u> | <u>          </u>                  | <u>          </u>            |
| Outstanding, December 31, 2009        | 720,000           | \$ 0.97                            |                              |
| Granted                               | 650,000           | \$ 0.86                            |                              |
| Exercised                             |                   |                                    |                              |
| Forfeited                             |                   |                                    |                              |
| Canceled/Expired                      |                   |                                    |                              |
|                                       | <u>          </u> | <u>          </u>                  |                              |
| Outstanding, December 31, 2010        | 1,370,000         | \$ 0.92                            |                              |
| <b>Granted</b>                        |                   |                                    |                              |
| <b>Exercised</b>                      |                   |                                    |                              |
| <b>Forfeited</b>                      |                   |                                    |                              |
| <b>Canceled/Expired</b>               | <b>(30,000)</b>   | <b>\$ 0.78</b>                     |                              |
|                                       | <u>          </u> | <u>          </u>                  |                              |
| <b>Outstanding, December 31, 2011</b> | <b>1,340,000</b>  | <b>\$ 0.92</b>                     |                              |
| <b>Options exercisable:</b>           |                   |                                    |                              |
| December 31, 2010                     |                   |                                    |                              |
| <b>December 31, 2011</b>              |                   |                                    |                              |

The options outstanding and exercisable as of December 31, 2011 are summarized as follows:

| Range of<br>exercise prices | Weighted average<br>exercise price | Options<br>Outstanding | Options<br>Exercisable | Weighted average<br>remaining life |
|-----------------------------|------------------------------------|------------------------|------------------------|------------------------------------|
| <u>          </u>           | <u>          </u>                  | <u>          </u>      | <u>          </u>      | <u>          </u>                  |
| \$0.75 - \$1.42             | \$ 0.76                            | 1,340,000              |                        | 8.1 years                          |
| \$1.69 - \$2.25             | \$ 1.92                            | 50,000                 | 50,000                 | 0.9 years                          |
| \$2.28 - \$3.13             | \$ 2.64                            | 958,667                | 958,667                | 3.0 years                          |
|                             |                                    | <u>          </u>      | <u>          </u>      |                                    |
|                             |                                    | 2,348,667              | 1,008,667              |                                    |
|                             |                                    | <u>          </u>      | <u>          </u>      |                                    |

As of December 31, 2011, the Company's service-based stock options have been fully amortized. The aggregate grant date fair value of performance-based options as of December 31, 2011 is \$836,959. During the quarter ended December 31, 2011, management determined the performance conditions related to these options were deemed probable to occur. Consequently, the Company recorded compensation expense in the amount of \$49,233 for the year ended December 31, 2011. The remaining balance, or unamortized amount of \$787,726, will continue to be expensed on a straight line basis through December 31, 2015, the implicit service period. If management determines in future periods the achievement of performance conditions are probable to occur sooner

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than expected, the Company will accelerate the expensing of any unamortized balance as of that determination date.

The fair value of performance-based options awarded during 2010 was estimated on the date of grant using the Black-Scholes option-pricing model and included the following range of assumptions; dividend yield of 0%, risk-free interest rates of 1.13% to 2.57%, and expected option lives of 4 years. Volatility assumption was 118%. The forfeiture rate was assumed to be 0%.

The per share weighted average fair value of performance-based options granted in the year 2010 were \$0.60.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 7 - SHAREHOLDERS EQUITY (Continued):

On June 14, 2011, the Company granted 40,000 shares of restricted common stock to select members of its board of directors. The shares were granted at the June 14<sup>th</sup> closing market price of \$0.78 per share and will vest on the date of the Company's next annual shareholders meeting, a vesting period of approximately one year. The total compensation expense to be recognized over the vesting period will be \$31,200 of which \$15,600 has been recognized in 2011.

On March 22, 2011, the Company granted 50,000 shares of restricted common stock to its Chief Executive Officer. The shares were granted at the March 22<sup>nd</sup> closing market price of \$1.08 per share and will vest on the one year anniversary from the date of grant. The total compensation expense to be recognized over the vesting period will be \$54,000 of which \$40,500 has been recognized in 2011.

On June 8, 2010, the Company granted 40,000 shares of restricted common stock to select members of its board of directors. The shares were granted at the June 8<sup>th</sup> closing market price of \$0.84 per share and will vest on the date of the Company's next annual shareholders meeting, a vesting period of approximately one year. The total compensation expense to be recognized over the vesting period will be \$33,600 of which \$16,800 has been recognized in 2011 and \$16,800 has been recognized in 2010.

A summary of the status of the Company's non-vested restricted common stock as of December 31, 2011, and changes during the years ended December 31, 2011 and 2010 are presented below:

| Non-vested Shares                      | Number of Shares | Weighted Average<br>Grant Date<br>Fair Value |
|--|------------------|--|
| Non-vested at December 31, 2009        |                  |  |
| Granted                                | 40,000           | \$ 0.84                                      |
| Vested                                 |                  |  |
| Non-vested at December 31, 2010        | 40,000           | \$ 0.84                                      |
| <b>Granted</b>                         | <b>90,000</b>    | <b>\$ 0.95</b>                               |
| <b>Vested</b>                          | <b>(40,000)</b>  | <b>\$ 0.84</b>                               |
| <b>Non-vested at December 31, 2011</b> | <b>90,000</b>    | <b>\$ 0.95</b>                               |

As of December 31, 2011, the unearned compensation related to the Company's granted restricted stock is \$29,100 which will continue to be amortized through June 2012.

## NOTE 8 - SEGMENT AND RELATED INFORMATION:

*Financial information by segment:*

The Company and its subsidiaries develop and manufacture various types of electronic test equipment. Historically, the operating businesses of the Company were aggregated into a single operating segment based on similar economic characteristics, products, services, customers, U.S. Government regulatory requirements, manufacturing processes and distribution channels. Based on how the Company currently manages and discusses its operations and the operations of its subsidiaries, the Company has revised its segment reporting to reflect two reportable segments, test and measurement and network solutions.

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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).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 8 - SEGMENT AND RELATED INFORMATION (Continued):

Financial information by reportable segment or the years ended December 31, 2011 and 2010 is presented below:

|  | <u>2011</u>          | <u>2010</u>          |
|--|----------------------|----------------------|
| <u>Net sales by segment:</u>   |                      |                      |
| Test and measurement   | \$ 13,855,052        | \$ 15,917,601        |
| Network solutions  | 12,968,388           | 8,646,625            |
|  | <u>26,823,440</u>    | <u>24,564,226</u>    |
| Total consolidated net sales and net sales of reportable segments                      | <u>\$ 26,823,440</u> | <u>\$ 24,564,226</u> |
| <u>Segment income:</u>   |                      |                      |
| Test and measurement   | \$ 1,451,624         | \$ 2,103,926         |
| Network solutions  | 3,097,164            | 1,320,774            |
|  | <u>4,548,788</u>     | <u>3,424,700</u>     |
| Income from reportable segments  | <u>4,548,788</u>     | <u>3,424,700</u>     |
| <u>Other unallocated amounts:</u>  |                      |                      |
| Corporate expenses   | (2,698,941)          | (2,619,177)          |
| Interest and other income - net  | 141,286              | 117,650              |
|  | <u>(2,557,655)</u>   | <u>(2,501,527)</u>   |
| Consolidated income from continuing operations before income tax (benefit)             | <u>\$ 1,991,133</u>  | <u>\$ 923,173</u>    |
| <u>Depreciation and amortization by segment:</u>                                       |                      |                      |
| Test and measurement   | \$ 417,713           | \$ 477,187           |
| Network solutions  | 55,747               | 52,261               |
|  | <u>473,460</u>       | <u>529,448</u>       |
| Total depreciation and amortization for reportable segments                            | <u>\$ 473,460</u>    | <u>\$ 529,448</u>    |
| <u>Capital expenditures by segment:</u>  |                      |                      |
| Test and measurement   | \$ 432,933           | \$ 281,207           |
| Network solutions  | 55,987               | 145,592              |
|  | <u>488,920</u>       | <u>426,799</u>       |
| Total consolidated capital expenditures by reportable segment                          | <u>\$ 488,920</u>    | <u>\$ 426,799</u>    |
| <u>Total assets by segment:</u>  |                      |                      |
| Test and measurement   | \$ 12,969,693        | \$ 12,797,151        |
| Network solutions  | 6,126,776            | 5,332,282            |
|  | <u>19,096,469</u>    | <u>18,129,433</u>    |
| Total assets for reportable segments   | <u>19,096,469</u>    | <u>18,129,433</u>    |
| Corporate assets, principally cash and cash equivalents and deferred and current taxes | <u>18,605,491</u>    | <u>19,489,382</u>    |

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|                           |                      |                      |
|---------------------------|----------------------|----------------------|
| Total consolidated assets | <u>\$ 37,701,960</u> | <u>\$ 37,618,815</u> |
|---------------------------|----------------------|----------------------|

For the years ended December 31, 2011 and 2010, no customer accounted for more than 6% and 5% of total consolidated sales, respectively.

In addition to its in-house sales staff, the Company uses various manufacturers' representatives to sell its products. For the years ended December 31, 2011 and 2010, no representative accounted for more than 10% of total consolidated sales.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE 8 - SEGMENT AND RELATED INFORMATION (Continued):

*Regional Sales:*

Net consolidated sales from continuing operations by region were as follows:

|                                    | For the Twelve Months<br>Ended December 31, |                      |
|------------------------------------|---|----------------------|
|                                    | 2011  | 2010                 |
| Americas                           | \$ 19,810,973                               | \$ 17,027,598        |
| Europe, Middle East, Africa (EMEA) | 4,982,978                                   | 4,932,729            |
| Asia Pacific (APAC)                | 2,029,489                                   | 2,603,899            |
|                                    | <u>\$ 26,823,440</u>                        | <u>\$ 24,564,226</u> |

Net sales are attributable to a geographic area based on the destination of the product shipment. The majority of shipments in the Americas are to customers located within the United States. For the years ended December 31, 2011 and 2010, sales in the United States amounted to \$17,741,752 and \$15,999,539, respectively. Shipments to the remaining regions presented above were largely concentrated in Germany (EMEA) and China (APAC). For the years ended December 31, 2011 and 2010, sales to Germany amounted to \$1,116,848, or 22% of all shipments to the EMEA region, and \$1,006,454, or 20% of all shipments to the EMEA region, respectively. Sales to China, for the years ended December 31, 2011 and 2010, amounted to \$912,614, or 45% of all shipments to the APAC region, and \$1,508,282, or 58% of all shipments to the APAC region, respectively. There were no other shipments significantly concentrated in one country.

*Purchases:*

For the years ended 2011 and 2010, no third-party supplier accounted for more than 10% and 8% of the Company's total consolidated inventory purchases, respectively.

## NOTE 9 - RETIREMENT PLANS:

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, 2011 and 2010 amounted to \$294,651 and \$297,308, respectively.

The Company also maintained a non-contributory, defined benefit pension plan covering 15 active and 30 former employees of its German subsidiary, Willtek. As a result of the May 7, 2010 sale of Willtek, the Company is no longer obligated to maintain such defined benefit plan as the on-going responsibility was assumed by the buyer.

## NOTE - INCOME TAXES:

10

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

|  | Year Ended December 31,     |                             |
|--|-----------------------------|-----------------------------|
|  | 2011                        | 2010                        |
|  | <u>                    </u> | <u>                    </u> |

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|           |                             |                             |
|-----------|-----------------------------|-----------------------------|
| Current:  |                             |                             |
| Federal   | \$ 27,395                   | \$ 461,845                  |
| State     | 286,700                     | 115,170                     |
| Deferred: |                             |                             |
| Federal   | (639,718)                   | (568,552)                   |
| State     | (112,892)                   | (100,333)                   |
|           | <u>                    </u> | <u>                    </u> |
|           | \$ (438,515)                | \$ (91,870)                 |
|           | <u>                    </u> | <u>                    </u> |

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

**NOTE - INCOME TAXES (Continued):**  
**10**

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

|   | Year Ended December 31, |                       |
|---|-------------------------|-----------------------|
|   | 2011                    | 2010                  |
|   | % of Pre Tax Earnings   | % of Pre Tax Earnings |
| Statutory federal income tax rate               | 34.0%                   | 34.0%                 |
| Change in valuation allowance on deferred taxes | (70.8)                  | (30.0)                |
| Investment in foreign subsidiary                |                         | (64.2)                |
| State income tax net of federal tax benefit     | 15.6                    | 12.5                  |
| Income tax recoverable adjustment               |                         | 33.2                  |
| Permanent differences                           | (0.2)                   | (8.0)                 |
| Over/under accruals                             | .2                      | 3.2                   |
| Other   | (0.8)                   | 9.3                   |
|   | <b>(22.0)%</b>          | <b>(10.0)%</b>        |

In 2011, the difference between the statutory and the effective tax rate is primarily due to a change in valuation allowance on deferred taxes based upon management's updated assumptions related to expected future taxable income. In 2010, the difference between the statutory and the effective tax rate is due mainly to the disposition of Willtek.

The components of deferred income taxes are as follows:

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| Deferred tax assets:                                       |                   |                   |
| Uniform capitalization of inventory costs for tax purposes | \$ 199,782        | \$ 185,024        |
| Reserves on inventories                                    | 480,632           | 421,236           |
| Allowances for doubtful accounts                           | 49,014            | 29,528            |
| Accruals   | 108,000           | 242,663           |
| Tax effect of goodwill                                     | (218,932)         | (116,228)         |
| Book depreciation over tax                                 | 27,643            | 23,494            |
| Net operating loss carryforward                            | 17,618,136        | 18,287,923        |
|  | <b>18,264,275</b> | <b>19,073,640</b> |

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|   |                     |                     |
|---|---------------------|---------------------|
| Valuation allowance for deferred tax assets | <u>(11,818,275)</u> | <u>(13,380,250)</u> |
|   | <b>\$ 6,446,000</b> | <b>\$ 5,693,390</b> |

The Company has a domestic net operating loss carryforward at December 31, 2011 of approximately \$25,400,000 which expires in 2029. The Company also has a foreign net operating loss carryforward at December 31, 2011 of approximately \$23,400,000 which has no expiration.

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 and tax credit carryforwards. The Company has recorded a valuation allowance due to the uncertainty related to the realization of certain deferred tax assets existing at December 31, 2011. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed. Management believes that it is more likely than not that the Company will realize the benefits of its deferred tax assets, net of valuation allowances as of December 31, 2011.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

**NOTE - INCOME TAXES (Continued):****10**

The Company files income tax returns in the U.S. (federal and state of New Jersey) and German taxing jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state tax examinations in its major tax jurisdictions for periods before 2008.

The Company does not have any significant unrecognized tax benefits and does not anticipate significant increase or decrease in unrecognized tax benefits within the next twelve months. Amounts recognized for income tax related interest and penalties as a component of the provision for income taxes are immaterial for the years ended December 31, 2011 and 2010.

**NOTE - COMMITMENTS AND CONTINGENCIES:****11***Warranties:*

The Company typically provides one-year warranties on all of its products covering both parts and labor. The Company, at its option, repairs or replaces products that are defective during the warranty period if the proper preventive maintenance procedures have been followed by its customers. Historically, warranty expense within the Company has been minimal. In 2009, there was a onetime increase of \$240,000 in warranty costs due to the potential rework of specific product shipped in 2008. In 2011, the Company reversed the one-time warranty accrual as this product is no longer being produced at original specifications and management believes there is a remote likelihood that any units will be returned.

*Leases:*

The Company leases a 45,700 square foot facility located in Hanover Township, Parsippany, New Jersey, which is currently being used as its principal corporate headquarters and manufacturing plant. On May 5, 2011, the Company entered into a building lease agreement with its current landlord to remain at its principal corporate headquarters. The term of the lease agreement is for three years beginning October 1, 2011 and ending September 30, 2014 and can be renewed at the tenant's option for one five-year period at fair market value to be determined at term expiration. The minimum monthly rent payment will be approximately \$29,000. The Company will benefit from a reduction in the base rent rate, realizing savings of approximately \$480,000 over the three year term, or approximately \$160,000 when annualized.

The Company is also responsible for its proportionate share of the cost of utilities, repairs, taxes, and insurance. The future minimum lease payments relative to continuing operations are shown below:

|      |    |         |
|------|----|---------|
| 2012 | \$ | 342,750 |
| 2013 |    | 342,750 |
| 2014 |    | 257,063 |
|      |    | <hr/>   |
|      | \$ | 942,563 |
|      |    | <hr/>   |

Rent expense included in continuing operations for the years ended December 31, 2011 and 2010 was \$527,238 and \$535,194, respectively.

The Company owns a 44,000 square foot facility located in Mahwah, New Jersey which is leased to an unrelated third party. This lease, which terminates in 2013, provides for annual rental income of \$385,991 throughout the lease term. The current tenant has an exclusive option to purchase the property, at a predetermined purchase price of approximately \$3,500,000, up through August 1, 2012.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

## NOTE - COMMITMENTS AND CONTINGENCIES (Continued):

11

The Company leases certain equipment under operating lease arrangements. These operating leases expire in various years through 2015. All leases may be renewed at the end of their respective leasing periods. Future payments relative to continuing operations consist of the following at December 31, 2011:

|      |    |                |
|------|----|----------------|
| 2012 | \$ | 74,267         |
| 2013 |    | 74,267         |
| 2014 |    | 74,267         |
| 2015 |    | 55,700         |
|      | \$ | <u>278,501</u> |

*Environmental Contingencies:*

Following an investigation by the New Jersey Department of Environmental Protection (NJDEP) in 1982, of the waste disposal practices at a certain site formerly leased by Boonton, the Company put a ground water management plan into effect as approved by the NJDEP. Costs associated with this site are charged directly to income as incurred. The owner of this site has previously notified the Company that if the NJDEP investigation proves to have interfered with a sale of the property, the owner may seek to hold the Company liable for any resulting damages. Since May 1983, the owner has been on notice of this problem and has failed to institute any legal proceedings with respect thereto. While this does not bar the owner from instituting a suit, it is the opinion of the Company's legal counsel that it is unlikely that the owner would prevail on any claim.

Costs charged to operations in connection with the water management plan amounted to approximately \$68,000 and \$50,000 for the years ended December 31, 2011 and 2010, respectively. The Company estimates that expenditures in this regard, including the costs of operating the wells and analyzing soil and water samples, will continue until the NJDEP determines that testing is complete. In 2010, the Company hired a new environmental consultant to evaluate the results of the current remediation plan that has been in effect since 1982. The Company is diligently pursuing efforts to satisfy the requirements of the original plan and receive a new determination from the NJDEP. Overall data from recent testing in the Spring of 2011 indicates the continuation of a decreasing concentration trend at the site. The overall decrease supports the absence of a continuing source impacting ground water. The Company believes that its current practice and plan of groundwater testing will continue until an official notification from NJDEP is obtained and the Company is released from further obligations. While management anticipates that the expenditures in connection with this site will not be substantial in future years, the Company could be subject to significant future liabilities and may incur significant future expenditures if further contaminants from Boonton's testing are identified and the NJDEP requires additional remediation activities. Management is unable to estimate future remediation costs, if any, at this time. The Company will continue to be liable under the plan, in all future years, until such time as the NJDEP releases it from all obligations applicable thereto.

*Line of Credit:*

The Company maintains a line of credit with its investment bank. The credit facility provides borrowing availability of up to 100% of the Company's money market account balance and 99% of the Company's short-term investment securities and, under the terms and conditions of the loan agreement, is fully secured by said money fund account and any short-term investment holdings. Advances under the facility will bear interest at a variable rate equal to the London InterBank Offered Rate ( LIBOR ) in effect at time of borrowing. Additionally, under the terms and conditions of the loan agreement, there is no annual fee and any amount outstanding under the loan facility may be paid at any time in whole or in part without penalty.

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As of December 31, 2011, the Company had no borrowings outstanding under the facility and approximately \$5,500,000 of borrowing availability. The Company has no current plans to borrow from this credit facility as it believes cash generated from operations will adequately meet near-term working capital requirements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Wireless Telecom Group, Inc.

**NOTE - COMMITMENTS AND CONTINGENCIES (Continued):**  
**11***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.

**NOTE - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):**  
**12**

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

|   | Quarter         |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> |
| <b>2011</b>   |                 |                 |                 |                 |
| Net sales   | \$ 6,077        | \$ 6,473        | \$ 7,064        | \$ 7,209        |
| Gross profit  | 2,650           | 2,918           | 3,433           | 3,466           |
| Operating income  | 298             | 212             | 699             | 641             |
| Income from continuing operations                       | 386             | 501             | 827             | 716             |
| Diluted net income per share from continuing operations | \$ .02          | \$ .02          | \$ .03          | \$ .03          |

|   | Quarter         |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 1 <sup>st</sup> | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> |
| <b>2010</b>   |                 |                 |                 |                 |
| Net sales   | \$ 6,137        | \$ 6,081        | \$ 5,710        | \$ 6,636        |
| Gross profit  | 2,803           | 2,956           | 2,696           | 3,100           |
| Operating income (loss)                                 | 312             | 321             | (40)            | 213             |
| Income from continuing operations                       | 320             | 298             | 39              | 358             |
| Diluted net income per share from continuing operations | \$ .01          | \$ .01          | \$ .00          | \$ .02          |

**NOTE - SUBSEQUENT EVENT:**  
**13**

On March 20, 2012, the Company's Board of Directors approved the granting of 25,620 and 20,661 shares of restricted stock to the Company's Chief Executive Officer and V.P. of Sales and Marketing, respectively. The shares will vest over a one-year period.