PC TEL INC
Form 10-Q
May 10, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2011

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 000-27115

PCTEL, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**77-0364943**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
471 Brighton Drive, Bloomingdale, IL	**60108**
(Address of Principal Executive Office)	(Zip Code)

(630) 372-6800

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and on its corporate Web site, if any, every Interactive Date 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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Title	Outstanding
Common Stock, par value $.001 per share	18,530,207 as of May 9, 2011

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For the Quarterly Period Ended March 31, 2011
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PART I FINANCIAL INFORMATION

Item 1: Financial Statements

PCTEL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	(unaudited) March 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 18,929	$ 23,998
Short-term investment securities	34,377	37,146
Accounts receivable, net of allowance for doubtful accounts of $165 and $160 at March 31, 2011 and December 31, 2010, respectively	14,436	13,873
Inventories, net	11,565	10,729
Deferred tax assets, net	1,013	1,013
Prepaid expenses and other assets	4,482	3,900
Total current assets	84,802	90,659
Property and equipment, net	12,254	11,088
Long-term investment securities	14,829	9,802
Intangible assets, net	10,593	8,865
Deferred tax assets, net	9,004	9,004
Other noncurrent assets	1,358	1,147
TOTAL ASSETS	**$ 132,840**	**$ 130,565**
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 6,348	$ 4,253
Accrued liabilities	5,646	7,546
Total current liabilities	11,994	11,799
Long-term liabilities	2,200	2,111
Total liabilities	14,194	13,910
Redeemable equity	931	
Stockholders equity:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 18,533,760 and 18,285,784 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	18	18
Additional paid-in capital	137,048	137,154

Accumulated deficit	(21,863)	(20,578)
Accumulated other comprehensive income	74	61
Total stockholders equity of PCTEL, Inc.	115,277	116,655
Noncontrolling interest	2,438	
Total equity	117,715	116,655
TOTAL LIABILITIES AND EQUITY	**$ 132,840**	**$ 130,565**

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

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PCTEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
REVENUES	$ 18,233	$ 15,573
COST OF REVENUES	10,012	8,354
GROSS PROFIT	8,221	7,219
OPERATING EXPENSES:		
Research and development	6,156	3,085
Sales and marketing	2,608	2,259
General and administrative	2,718	2,552
Amortization of other intangible assets	672	763
Total operating expenses	12,154	8,659
OPERATING LOSS	(3,933)	(1,440)
Other income, net	1,729	159
LOSS BEFORE INCOME TAXES	(2,204)	(1,281)
Benefit for income taxes	(304)	(486)
NET LOSS	(1,900)	(795)
Less: Net loss attributable to noncontrolling interests	(1,781)	
NET LOSS ATTRIBUTABLE TO PCTEL, INC.	($119)	($795)
Less: Adjustments to redemption value of noncontrolling interest	(1,166)	
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	**($1,285)**	**($795)**
Basic Earnings per Share:		
Net Loss available to common shareholders	($0.07)	($0.05)
Diluted Earnings per Share:		
Net Loss available to common shareholders	($0.07)	($0.05)
Weighted average shares Basic	17,199	17,487
Weighted average shares Diluted	17,199	17,487

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

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PCTEL, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,	
	2011	**2010**
Operating Activities:		
Net loss	($1,900)	($795)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,303	1,332
Gain on bargain purchase of acquisition		(54)
Amortization of stock based compensation	821	952
Share based expense	1,584	
Loss on disposal/sale of property and equipment		7
Payment of withholding tax on stock based compensation	(1,197)	(664)
Deferred tax assets		(52)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(562)	(2,895)
Inventories	(831)	(31)
Prepaid expenses and other assets	(793)	(339)
Accounts payable	2,093	(520)
Income taxes payable		(105)
Other accrued liabilities	(1,624)	1,366
Deferred revenue	(191)	735
Net cash used in operating activities	(1,297)	(1,063)
Investing Activities:		
Capital expenditures	(1,800)	(152)
Proceeds from disposal of property and equipment		3
Purchase of investments	(17,663)	(9,744)
Redemptions/maturities of short-term investments	15,405	8,435
Purchase of assets/businesses, net of cash acquired		(2,109)
Net cash used in investing activities	(4,058)	(3,567)
Financing Activities:		
Proceeds from issuance of common stock	270	225
Net cash used in financing activities	270	225
Net decrease in cash and cash equivalents	(5,085)	(4,405)

Effect of exchange rate changes on cash	16	(9)
Cash and cash equivalents, beginning of year	23,998	35,543
Cash and Cash Equivalents, End of Period	$ 18,929	$ 31,129

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

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PCTEL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2011 (Unaudited)
(in thousands)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Nature of Operations

PCTEL is a global leader in propagation and optimization solutions for the wireless industry. The Company designs and develops software-based radios (scanning receivers) for wireless network optimization and develops and distributes innovative antenna solutions. Additionally, the Company has licensed its intellectual property, principally related to a discontinued modem business, to semiconductor, PC manufacturers, modem suppliers, and others.

The Company designs, distributes, and supports innovative antenna solutions for public safety applications, unlicensed and licensed wireless broadband, fleet management, network timing, and other global positioning systems (GPS) applications. The Company s portfolio of scanning receivers and interference management solutions are used to measure, monitor and optimize cellular networks.

In 2010, the Company operated in one segment for reporting purposes. Beginning with the formation of PCTEL Secure in January 2011, the Company reports the financial results of PCTEL Secure as a separate operating segment. The Company s chief operating decision maker (CODM) uses the profit and loss results and the assets in deciding how to allocate resources and assess performance between the segments.

Antenna Products

PCTEL s MAXRAD®, Bluewave and Wi-Sys antenna solutions address public safety, military, and government applications; supervisory control and data acquisition (SCADA), health care, energy, smart grid and agricultural applications; indoor wireless, wireless backhaul, and cellular applications. Revenue growth for antenna products is driven by emerging wireless applications in these markets. The Company s portfolio includes a broad range of WiMAX antennas, land mobile radio (LMR) antennas, and precision GPS antennas that serve innovative applications in telemetry, radio frequency identification (RFID), WiFi, fleet management, and mesh networks. The Company s antenna products are primarily sold through distributors and original equipment manufacturer (OEM) equipment providers.

The Company established its current antenna product portfolio with a series of acquisitions. In 2004 the Company acquired MAXRAD as well as certain product lines from Andrew, which established its core product offerings in WiFi, LMR and GPS. Over the next several years the Company added additional capabilities within those product lines and additional served markets with the acquisitions of certain assets of Bluewave Antenna Systems, Ltd (Bluewave) in 2008, Wi-Sys Communications, Inc (Wi-Sys) in 2009, and Sparco Technologies, Inc. (Sparco) in 2010. The Company s WiMAX antenna products were developed and brought to market through the Company s on going operations.

Scanning Receivers

PCTEL is a leading supplier of high-speed, multi-standard, demodulating receivers and test and measurement solutions to the wireless industry worldwide. The Company s SeeGull® scanning receivers, receiver-based products and CLARIFY® interference management solutions are used to measure, monitor and optimize cellular networks. Revenue growth for scanning receiver and interference management products is driven by the deployment of new wireless technology and the need for wireless networks to be tuned and reconfigured on a regular basis. The Company develops and supports scanning receivers for LTE, EVDO, CDMA, WCDMA, GSM, TD-SCDMA, and WiMAX networks. The Company s scanning receiver products are sold primarily through test and measurement value added resellers and to a lesser extent directly to network operators.

The Company established its scanning receiver product portfolio in 2003 with the acquisition of certain assets of Dynamic

Telecommunications, Inc. In 2009 the Company acquired the scanning receiver business of Ascom Network Testing, Inc (Ascom) as well as the exclusive distribution rights and patented technology for Wider Network s (Wider) network interference products.

The Company also has an intellectual property portfolio related to antennas, the mounting of antennas, and scanning receivers. These patents are being held for defensive purposes and are not part of an active licensing program.

Secure applications

On January 5, 2011, the Company formed PCTEL Secure LLC (PCTEL Secure), a joint venture limited liability company, with Eclipse Design Technologies, Inc (Eclipse). PCTEL Secure will design Android-based, secure communication products. The Company contributed $2.5 million in cash in return for 51% ownership of the joint venture and Eclipse contributed $2.4 million of intangible assets in return for 49% ownership of the joint venture.

Basis of Consolidation and Foreign Currency Translation

The condensed consolidated balance sheet as of March 31, 2011 and the condensed consolidated statements of operations and cash flows for the three months ended March 31, 2011 and 2010 are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The interim condensed consolidated financial statements are derived from the audited financial statements as of December 31, 2010.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The condensed consolidated financial statements include the accounts of PCTEL Secure. Because the Company has a 51% ownership interest in PCTEL Secure, 49% of PCTEL Secure s net loss is recorded as noncontrolling interest in the statements of operations for the three months ended March 31, 2011 and 49% of the equity in PCTEL Secure is recorded as noncontrolling interest. All intercompany accounts and transactions have been eliminated.

The unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted. The significant accounting policies followed by the Company are set forth within the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K). There were no changes in the Company s significant accounting policies during the three months ended March 31, 2011. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2010 Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the 2010 Form 10-K. The results for the operations for the period ended March 31, 2011 may not be indicative of the results for the period ended December 31, 2011.

The Company is exposed to foreign currency fluctuations due to its foreign operations and because products are sold internationally. The functional currency for the Company s foreign operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using the exchange rate in effect at the applicable balance sheet date for assets and liabilities and average monthly rates prevailing during the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income, a separate component of shareholders equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in condensed consolidated statement of operations. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were $8 and $14 for the three months ended March 31, 2011 and 2010, respectively.

Fair Value of Financial Instruments

Cash and cash equivalents are measured at fair value and investments are recognized at amortized cost in the Company s financial statements. Accounts receivable and other investments are financial assets with carrying values that approximate fair value due to the short-term nature of these assets. Accounts payable is a financial liability with a carrying value that approximates fair value due to the short-term nature of these liabilities. The Company follows Fair Value Measurements and Disclosures (ASC 820), which establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instruments categorization within the hierarchy is based on the lowest level of input that is significant to the

fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:
Level 1: inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets

and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

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

2. Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASC) No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends the Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures. ASU No. 2010-06 amends the ASC to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and requires more detailed disclosure about the activity within Level 3 fair value measurements. The guidance became effective for us with the reporting period beginning January 1, 2010. The guidance did not have any impact on the Company s consolidated financial statements

3. Balance Sheet Data

Cash and Cash equivalents

At March 31, 2011, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At March 31, 2011 and December 31, 2010, the Company s cash equivalents were invested in highly liquid AAA money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940. Such funds utilize the amortized cost method of accounting, seek to maintain a constant $1.00 per share price, and are redeemable upon demand. The Company restricts its investments in AAA money market funds to those invested 100% in either short-term U.S. Government Agency securities or bank repurchase agreements collateralized by the these same securities. The fair values of these money market funds are established through quoted prices in active markets for identical assets (Level 1 inputs). The cash in the Company s U.S. banks is fully insured by the Federal Deposit Insurance Corporation due to the balances being below the maximum insured amounts.

The Company had $0.8 million and $0.7 million of cash and cash equivalents in foreign bank accounts at March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011, the Company has no intentions of repatriating the cash in its foreign bank accounts. If the Company decides to repatriate the cash in the foreign bank accounts, it may experience difficulty in doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds.

Investments

At March 31, 2011 and December 31, 2010, the Company s short-term and long-term investments consisted of pre-refunded municipal bonds, U.S. government agency bonds, and AA or higher rated corporate bonds all classified as held-to-maturity

At March 31, 2011, the Company had invested $24.5 million in pre-refunded municipal bonds, $17.1 million in U.S. government agency bonds and $7.6 million in AA rated or higher corporate bonds. The income and principal from the pre-refunded municipal bonds are secured by an irrevocable trust of U.S Treasury securities. The bonds, classified as short-term investments, have original maturities greater than 90 days and mature in less than one year. At March 31, 2011, the Company had $14.8 million classified as long-term investment securities. The bonds classified as long-term investments have maturities greater than one year but less than two years. The Company s bonds are recorded at the purchase price and carried at amortized cost. The net unrealized gains were $34 at March 31, 2011. Approximately 18% of the Company s bonds were protected by bond default insurance at March 31, 2011.

At December 31, 2010, the Company had invested $19.2 million in pre-refunded municipal bonds, $19.0 million in U.S. government agency bonds, and $8.7 million in AA rated or higher corporate bonds, and classified $9.8 million as long-term investment securities because the original maturities were greater than one year.

The Company categorizes its financial instruments within a fair value hierarchy established in accounting and disclosures for fair value measurements. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 1. For the Level 2 investments, the Company uses quoted prices of similar assets in active markets.

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Cash equivalents and investments measured at fair value were as follows at March 31, 2011 and December 31, 2010:

	March 31, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	$13,820	$	$	$13,820	$21,032	$	$	$21,032
Investments:								
US government agency bonds		17,148		17,148		19,036		19,036
Municipal bonds		24,509		24,509		19,378		19,378
Corporate debt securities		7,583		7,583		8,756		8,756
Total	$13,820	$49,240	$	$63,060	$21,032	$47,170	$	$68,202

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amount with standard net terms that range between 30 and 60 days. The Company extends credit to its customers based on an evaluation of a company s financial condition and collateral is generally not required. The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company s assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. The Company s allowance for doubtful accounts was $0.2 million at each of March 31, 2011 and December 31, 2010, respectively. The provision for doubtful accounts is included in sales and marketing expense in the condensed consolidated statements of operations.

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the first-in, first-out (FIFO) method of costing. Inventories as of March 31, 2011 and December 31, 2010 were composed of raw materials, sub-assemblies, finished goods and work-in-process. The Company had consigned inventory with customers of $0.8 million and $1.0 million at March 31, 2011 and December 31, 2010, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or market, including allowances for excess and obsolete inventory. The allowance for inventory losses was $1.0 million at both March 31, 2011 and December 31, 2010.

Inventories consisted of the following at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Raw materials	$ 8,507	$ 7,613
Work in process	589	542
Finished goods	2,469	2,574
Inventories, net	$ 11,565	$ 10,729

Prepaid and other current assets

Prepaid assets are stated at cost and are amortized over the useful lives (up to one year) of the assets.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The Company depreciates computer equipment over three to five years, office equipment, manufacturing and test equipment, and motor vehicles over five years, furniture and fixtures over seven years, and buildings over 30 years. Leasehold improvements are amortized over the shorter of the corresponding lease term or useful life. Depreciation expense and gains and losses on the disposal of property and equipment are included in cost of sales and operating expenses in the condensed consolidated statements of operations. Maintenance and repairs are expensed as incurred.

Property and equipment consists of the following at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Building	$ 6,207	$ 6,207
Computers and office equipment	5,757	4,450
Manufacturing and test equipment	8,142	7,707
Furniture and fixtures	1,160	1,127
Leasehold improvements	203	176
Motor vehicles	27	27
Total property and equipment	21,496	19,694
Less: Accumulated depreciation and amortization	(11,012)	(10,376)
Land	1,770	1,770
Property and equipment, net	$ 12,254	$ 11,088

Intangible Assets

The Company amortizes intangible assets with finite lives on a straight-line basis over the estimated useful lives, which range from one to eight years. The summary of other intangible assets, net as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011			December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	$ 16,763	$ 9,192	$ 7,571	$ 16,763	$ 8,743	$ 8,020
Patents and technology	7,409	6,037	1,372	6,312	6,007	305
Trademarks and trade names	2,603	2,153	450	2,603	2,074	529
Other	3,017	1,817	1,200	1,714	1,703	11
	$ 29,792	$ 19,199	$ 10,593	$ 27,392	$ 18,527	$ 8,865

The $1.7 million increase in intangible assets at March 31, 2011 compared to December 31, 2010 reflects $2.4 million of intangible assets contributed by Eclipse to PCTEL Secure in January 2011 offsetting amortization of $0.7 million for the three months ended March 31, 2011. See Note 4 for information related to PCTEL Secure.

In December 2010, the Company recorded an impairment of other intangible assets of $1.1 million. The impairment expense included $0.9 million for an impairment of the distribution rights and trade name acquired in the Wider settlement, and $0.2 million for a partial impairment of the technology and non-compete agreements acquired from Ascom. The 2010 revenues resulting from the products acquired from Ascom and the products related to the settlement with Wider were significantly lower than the Company s revenue projections used in the original accounting valuations. The Company considered these revenue variances as a triggering event that the carrying value of the long lived intangible assets subject to amortization may not be fully recoverable and may be less than the fair value at December 31, 2010.

The Company s scheduled amortization expense for the next five years is as follows:

Fiscal Year	Amount
2011	$2,075
2012	$2,803
2013	$2,478
2014	$1,961
2015	$1,251
thereafter	$ 25

The following table presents the fair value measurements of non-recurring assets for continuing operations at March 31, 2011 and December 31, 2010:

	March 31, 2011					**December 31, 2010**				
	Level 1	**Level 2**	**Level 3**	**Total**	**Gain (Loss)**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Gain (Loss)**
Intangible assets	$			$	$	$		8,865	$8,865	$ (1,084)
Total	$	$	$	$	$	$	$	$8,865	$8,865	$ (1,084)

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Liabilities

Accrued liabilities consist of the following at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Inventory receipts	$ 1,760	$ 2,444
Paid time off	963	846
Payroll, bonuses, and other employee benefits	823	1,615
Deferred revenues	310	501
Due to Sparco shareholders	198	198
Due to Wider	196	194
Real estate taxes	189	148
Restructuring	182	324
Warranties	173 &nbs	