PC TEL INC
Form 10-Q
May 09, 2008

Table of Contents

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, 2008

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 Business Issuer 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer 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	20,865,495 as of May 1, 2008

PCTEL, Inc.
Form 10-Q
For the Quarterly Period Ended March 31, 2008
TABLE OF CONTENTS

Table of Contents

PCTEL, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited, in thousands except per share amounts)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 93,047	$ 26,632
Short-term investment securities	9,931	38,943
Accounts receivable, net of allowance for doubtful accounts of $211 and $227, respectively	12,751	16,082
Inventories, net	9,566	9,867
Deferred tax assets, net	1,591	1,591
Prepaid expenses and other assets	1,893	1,800
Total current assets	128,779	94,915
PROPERTY AND EQUIPMENT, net	12,220	12,136
LONG-TERM INVESTMENT SECURITIES	15,432	
GOODWILL	17,304	16,770
OTHER INTANGIBLE ASSETS, net	7,186	4,366
DEFERRED TAX ASSETS, net	4,863	4,863
OTHER ASSETS	906	1,022
ASSETS OF DISCONTINUED OPERATIONS		1,807
TOTAL ASSETS	**$ 186,690**	**$ 135,879**
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,490	$ 956
Accrued liabilities	4,736	8,395
Short term debt	111	107
Income tax liabilities	22,810	8
Total current liabilities	29,147	9,466
LONG-TERM LIABILITIES	1,050	1,192
LIABILITIES OF DISCONTINUED OPERATIONS		654
Total liabilities	30,197	11,312
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS EQUITY:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 20,950,555 and 21,916,902 shares issues and outstanding at March 31, 2008 and December 31, 2007 respectively	21	22

Additional paid-in capital	159,816	165,108
Accumulated deficit	(3,472)	(40,640)
Accumulated other comprehensive income	128	77
Total stockholders equity	156,493	124,567
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 186,690**	**$ 135,879**

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

Table of Contents

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CONTINUING OPERATIONS		
REVENUES	$ 18,300	$ 16,617
COST OF REVENUES	9,534	9,188
GROSS PROFIT	**8,766**	**7,429**
OPERATING EXPENSES:		
Research and development	2,186	2,579
Sales and marketing	2,763	2,738
General and administrative	2,772	3,443
Amortization of other intangible assets	440	695
Restructuring charges	377	
Gain on sale of assets and related royalties	(200)	(250)
Total operating expenses	8,338	9,205
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	428	(1,776)
OTHER INCOME, NET	784	953
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	1,212	(823)
PROVISION (BENEFIT) FOR INCOME TAXES	737	(98)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**475**	**(725)**
DISCONTINUED OPERATIONS		
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX PROVISION (BENEFIT) OF $23,311 and ($75)	36,693	(33)
NET INCOME (LOSS)	**$ 37,168**	$ **(758)**
Basic Earnings per Share:		
Income (Loss) from Continuing Operations	$ 0.02	$ (0.03)
Income (Loss) Discontinued Operations	$ 1.80	$ 0.00
Net Income (Loss)	$ 1.82	$ (0.04)
Diluted Earnings per Share:		
Income (Loss) from Continuing Operations	$ 0.02	$ (0.03)
Income (Loss) Discontinued Operations	$ 1.80	$ 0.00
Net Income (Loss)	$ 1.82	$ (0.04)

Weighted average shares	Basic	20,426	21,029
Weighted average shares	Diluted	20,426	21,029

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

Table of Contents

PCTEL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating Activities:		
Net Income (Loss)	$ 37,168	$ (758)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
(Income) loss from discontinued operations	(36,693)	33
Depreciation and amortization	887	1,108
Amortization of stock based compensation	1,148	1,149
Loss from short-term investments	475	
Gain on sale of assets and related royalties	(200)	(250)
Gain (loss) on disposal/sale of property and equipment	(2)	9
Restructuring costs	(855)	
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,341	(3,733)
Inventories	308	(1,245)
Prepaid expenses and other assets	21	(103)
Accounts payable	526	1,571
Payment of withholding tax on stock based compensation	(697)	(778)
Income taxes payable	(507)	(54)
Other accrued liabilities	(2,953)	(1,532)
Deferred revenue	4	(186)
Net cash provided by (used in) operating activities	1,971	(4,769)
Investing Activities:		
Capital expenditures	(429)	(698)
Proceeds from disposal of property and equipment	5	
Purchase of short-term investment		(19,977)
Redemptions of short-term investments	13,105	11,623
Proceeds on sale of assets and related royalties	200	250
Purchase of assets/businesses	(3,900)	
Net cash provided by (used in) investing activities	8,981	(8,802)
Financing Activities:		
Proceeds from issuance of common stock	423	700
Payments for repurchase of common stock	(7,592)	
Tax benefit from stock option exercises	1,238	
Proceeds from short-term borrowings		202
Net cash (used in) provided by financing activities	(5,931)	902

Cash flows from discontinued operations:		
Net cash (used in) provided by operating activities	(145)	1,562
Net cash provided by (used in) investing activities	61,488	(267)
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	66,364	(11,374)
Effect of exchange rate changes on cash	51	(12)
Cash and cash equivalents, beginning of year	26,632	59,148
Cash and Cash Equivalents, End of Period	$ 93,047	$ 47,762

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

PCTEL, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2008
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited 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. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the company s annual report on Form 10-K for the year ended December 31, 2007.

Nature of Operations

During the three months ended March 31, 2008, the company operated in two business segments: the Broadband Technology Group (BTG) and Licensing. In 2007, the company operated in a third business segment, the Mobility Solution Group (MSG). On January 4, 2008, the company completed the sale of the Mobility Solutions Group to Smith Micro, Inc. At December 31, 2007, the applicable assets and liabilities of MSG were recorded as held for sale. The company recorded the gain on sale and operating results of MSG as discontinued operations for the three months ended March 31, 2008. As required by GAAP, the consolidated financial statements separately reflect the MSG operations as discontinued operations for all periods presented.

Basis of Consolidation and Foreign Currency Translation

The company uses the United States dollar as the functional currency for the financial statements. The company uses the local currency as the functional currency for its subsidiaries in China (Yuan), Ireland (Euro), United Kingdom (Pounds Sterling), Malaysia (Ringgit), and India (Rupee). Assets and liabilities of these operations are translated to U.S. dollars at the exchange rate in effect at the applicable balance sheet date, and revenues and expenses are translated using average exchange rates prevailing during that period. Translation gains (losses) are recorded in accumulated other comprehensive income as a component of stockholders equity. All gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in net income. Net foreign exchange gains resulting from foreign currency transactions included in other income, net were $166 and $26 for the three months ended March 31, 2008 and March 31, 2007, respectively.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current year s presentation of continuing and discontinued operations.

Recent Accounting Pronouncements

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110 Share-Based Payment (SAB 110). SAB 110 establishes the continued use of the simplified method for estimating the expected term of equity based compensation. The simplified method was intended to be eliminated for any equity based compensation arrangements granted after December 31, 2007. SAB 110 is being published to help companies that may not have adequate exercise history to estimate expected terms for future grants. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (FAS 141R). FAS 141R establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the fair value of identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. FAS 141R determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS No. 141R is effective for fiscal years beginning after December 15, 2008. The company is currently evaluating the impact of adopting FAS 141R on the consolidated results of operations and financial condition and plans to adopt it as required in the first quarter of fiscal

2009.

In December 2007, FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160), an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51). FAS 160 establishes accounting and reporting

6

standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. This pronouncement is effective for fiscal years beginning after December 15, 2008. The company does not expect FAS 160 to have a material impact on the consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159) which provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are recorded on different bases. The company adopted this statement effective January 1, 2008. The adoption of SFAS 159 did not have a material impact on the consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The company adopted this statement effective January 1, 2008. The adoption of FAS 157 did not have a material impact on the consolidated financial statements.

Effective January 2007, the company adopted provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). See Note 14 on Income Taxes for discussion of FIN 48.

2. Cash and Cash Equivalents and Investments

At March 31, 2008, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At March 31, 2008 and December 31, 2007, 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 money market funds to those invested 100% in either short term U.S. Treasury securities, 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).

At March 31, 2008, the company owns shares with a recorded value of approximately $25.4 million in a Bank of America affiliated fund, the Columbia Strategic Cash Portfolio (CSCP). The CSCP is an enhanced cash money market fund that has been negatively impacted by the recent turmoil in the credit markets. This investment is classified as available for sale and is carried at fair value. In December 2007, the CSCP was closed to new subscriptions and redemptions, and changed its method of valuing shares from the amortized cost method to the market value of the underlying securities of the fund. The CSCP s manager is in the process of liquidating the fund and returning cash to the shareholders. During the quarter ended March 31, 2008, the company received approximately $13.1 million in share liquidation payments and incurred an unrealized loss of $0.5 million in net asset value from the CSCP marking the underlying assets of the fund to market. The loss in net asset value was recorded in the company s income statement as a reduction of Other Income, Net .

The CSCP fund manager reports the CSCP fund share net asset value to shareholders on a daily basis, a report of the CSCP underlying securities holdings on a monthly basis, and a report of the liquidation status on a monthly basis. The CSCP fund shares are not tradable. In order to determine the fund s net asset value, the CSCP fund manager utilizes a combination of unadjusted quoted prices in active markets for identical assets (Level 1 inputs), unadjusted quoted prices for identical or similar assets in both active and inactive markets (Level 2 inputs), and unobservable inputs for distressed assets (Level 3 inputs). They do not disclose the amount of net asset value attributable to each level. The net asset value per fund share provided by the CSCP fund manager is used by management as the basis for its determination of fair value of the CSCP fund shares. The company classifies that input in its entirety at the lowest level of the inputs used by the CSCP fund manager (Level 3). The company s pro-rata share of the underlying assets of the $25.4 million investment in the fund at March 31, 2008 is approximately $1.8 million of cash and accrued interest, $5.9 million of corporate financial institution debt, and $17.7 million of asset backed securities primarily in the areas of residential mortgages, credit card debt, and auto loans. At March 31, 2008, approximately 95% of the CSCP holdings were in cash, accrued interest and securities with an S&P rating of A or better. Five percent of the fund s holdings are comprised of securities with S&P ratings of BBB or lower, or were not rated.

At December 31, 2007, the company classified its entire investment in CSCP shares as short term investments in securities, based on an estimate that the liquidation would be substantially complete within 12 months, and reinforced by progress seen in the liquidation during the first quarter 2008, prior to the issuance of the company s financial statements for the year then ended. At the end of March 2008, the CSCP

Table of Contents

fund manager informed shareholders that further liquidation of the underlying assets beyond that which would result from the weighted average lives of the underlying securities is dependent upon the commercial paper market returning to historical levels of liquidity. Based on the continued illiquidity of the commercial paper market, management believes that the most accurate estimate of the CSCP liquidation schedule is found in the weighted average lives of the CSCP fund s underlying securities, adjusted for an allowance for the historical accuracy of the weighted average lives. Based on that methodology, the company classified $9.9 million of the CSCP investment as short-term investment securities and $15.4 million as long-term investment securities at March 31, 2008. The weighted average lives of the CSCP fund s underlying assets indicates the liquidation will be substantially completed by the end of 2010.

Cash equivalents and investments consist of the following:

	March 31, 2008	December 31, 2007
Cash and Cash Equivalents	$ 93,047	$ 26,632
Available for Sale Securities:		
Short-term	9,931	38,943
Long-Term	15,432	
Total	$ 118,410	$ 65,575

The fair value measurements of the financial assets at March 31, 2008 were as follows:

	Quoted at Prices in Active Markets for Identical Assets (Level 1)	Signficant Other Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	$ 93,047	$	$ 93,047
Available for Sale Securities:			
Short-term		9,931	9,931
Long-Term		15,432	15,432
Total	$ 93,047	$ 25,363	$ 118,410

The activity related to the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows for the three months ended March 31, 2008:

	Short-Term Investment Securities	Long-Term Investment Securities	Total Investment Securities
Balance at December 31, 2007	$ 38,943	$	$ 38,943
Redemptions	(13,105)		(13,105)
Unrealized losses	(475)		(475)

Reclassification		(15,432)		15,432		
Balance at March 31, 2008	$	9,931	$	15,432	$	25,363

3. Inventories

Inventories as of March 31, 2008 and December 31, 2007 were composed of raw materials, sub assemblies, finished goods and work-in-process. Sub assemblies are included within raw materials. As of March 31, 2008 and December 31, 2007, the allowance for inventory losses was $1.3 million and $0.9 million, respectively.

Table of Contents

	March 31, 2008	December 31, 2007
Raw materials	$ 7,976	$ 8,328
Work in process	515	527
Finished goods	2,367	1,950
Excess & obsolescence reserves	(1,292)	(938)
Inventories, net	$ 9,566	$ 9,867

4. Property and Equipment

Property and equipment consists of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Building	$ 6,144	$ 6,050
Land	1,770	1,770
Computer and office equipment	3,509	3,412
Manufacturing Equipment	4,986	4,818
Furniture and fixtures	1,149	1,037
Leasehold improvements	165	119
Motor Vehicles	27	27
Total property and equipment	17,750	17,233
Less: Accumulated depreciation and amortization	(5,530)	(5,097)
Property and equipment, net	$ 12,220	$ 12,136

5. Accrued Liabilities

Accrued liabilities consist of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Accrued inventory receipts	$ 1,380	$ 2,631
Restructuring liability	383	1,239
Accrued payroll, bonuses, and other employee benefits	538	1,235
Accrued paid time off	708	927
Accrued employee stock purchase plan	62	265
Other accrued liabilities	1,665	2,098
Total	$ 4,736	$ 8,395

6. Disposal of Mobility Solutions Group

On January 4, 2008, the company completed the sale of its MSG to Smith Micro Software, Inc. (Smith Micro) in accordance with an Asset Purchase Agreement (the Asset Purchase Agreement) entered into between the two companies and publicly announced on December 10, 2007. Under the terms of the Asset Purchase Agreement, Smith

Micro purchased substantially all of the assets of the Mobility Solutions Group for total consideration of $59.7 million in cash. In the transaction, PCTEL retained the accounts receivable, non customer-related accrued expenses and accounts payable of the division. Substantially all of the employees of MSG continued as employees of Smith Micro in connection with the completion of the acquisition.

The results of operations of MSG have been classified as discontinued operations for the three months ended March 31, 2008 and 2007. The assets and liabilities that were sold with MSG are classified as assets and liabilities held for sale in the balance sheet at

Table of Contents

December 31, 2007. The company recognized a gain on sale before tax of $60.3 million in the three months ended March 31, 2008.

Summary results of operations for the discontinued operations included in the consolidated statement of operations for the three months ended March 31, 2008 and 2007 are as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenues	$ 122	$ 2,335
Operating costs and expenses	381	2,443
Restructuring expenses	73	
Gain on disposal	(60,336)	
Income (loss) from discontinued operations, before taxes	60,004	(108)
Provision (benefit) for income tax	23,311	(75)
Income (loss) from discontinued operations, net of tax	$ 36,693	$ (33)
Income (loss) from discontinued operations per common share:		
Basic	$ 1.80	$ (0.00)
Diluted	$ 1.80	$ (0.00)
Shares used in computing basic earnings (loss) per share	20,426	21,029
Shares used in computing diluted earnings (loss) per share	20,426	21,029

Assets and liabilities classified as discontinued operations held for sale on the consolidated balance sheets as of March 31, 2008 and December 31, 2007 include the following:

	March 31, 2008	December 31, 2007
Prepaid expenses	$	$ 53
Fixed assets		807
Goodwill		871
Other assets		76
Total assets	$	$ 1,807
Deferred rent current	$	$ 49
Deferred revenue		378
Total current liabilities		427
Deferred rent long-term		227
Total liabilit		