PC TEL INC
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

¨ **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 x No ¨

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 x No ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨

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

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	18,224,885 as of November 9, 2011

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PCTEL, INC.

Form 10-Q

For the Quarterly Period Ended September 30, 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) September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 21,655	$ 23,998
Short-term investment securities	41,570	37,146
Accounts receivable, net of allowance for doubtful accounts of $133 and $160 at September 30, 2011 and December 31, 2010, respectively	13,724	13,873
Inventories, net	13,636	10,729
Deferred tax assets, net	1,013	1,013
Prepaid expenses and other assets	2,119	3,900
Total current assets	93,717	90,659
Property and equipment, net	13,309	11,088
Long-term investment securities	5,388	9,802
Intangible assets, net	9,270	8,865
Deferred tax assets, net	9,004	9,004
Other noncurrent assets	1,204	1,147
TOTAL ASSETS	**$ 131,892**	**$ 130,565**
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 5,128	$ 4,253
Accrued liabilities	6,578	7,546
Total current liabilities	11,706	11,799
Long-term liabilities	2,036	2,111
Total liabilities	13,742	13,910
Redeemable equity	931	
Stockholders equity:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 18,191,626 and 18,285,784 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	18	18
Additional paid-in capital	136,461	137,154
Accumulated deficit	(20,942)	(20,578)
Accumulated other comprehensive income	102	61
Total stockholders equity of PCTEL, Inc.	115,639	116,655
Noncontrolling interest	1,580	
Total equity	117,219	116,655

TOTAL LIABILITIES AND EQUITY	**$**	**131,892**	**$**	**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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUES	$ 19,494	$ 17,314	$ 56,837	$ 50,694
COST OF REVENUES	10,140	10,301	30,258	28,348
GROSS PROFIT	9,354	7,013	26,579	22,346
OPERATING EXPENSES:				
Research and development	3,035	2,955	8,991	9,128
Sales and marketing	2,643	2,548	7,853	7,332
General and administrative	2,520	2,171	8,236	7,648
Amortization of intangible assets	661	742	1,995	2,281
Restructuring charges	125	95	125	585
Total operating expenses	8,984	8,511	27,200	26,974
OPERATING INCOME (LOSS)	370	(1,498)	(621)	(4,628)
Other income, net	64	77	266	323
INCOME (LOSS) BEFORE INCOME TAXES	434	(1,421)	(355)	(4,305)
Expense (benefit) for income taxes	216	(492)	(13)	(1,553)
NET INCOME (LOSS)	218	(929)	(342)	(2,752)
Less: Net loss attributable to noncontrolling interests	(274)		(740)	
NET INCOME (LOSS) ATTRIBUTABLE TO PCTEL, INC.	$ 492	($ 929)	$ 398	($ 2,752)
Less: adjustments to redemption value of noncontrolling interests	(106)		(762)	
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 386	($ 929)	($ 364)	($ 2,752)
Basic Earnings per Share:				
Net income (loss) available to common shareholders	$ 0.02	($ 0.05)	($ 0.02)	($ 0.16)
Diluted Earnings per Share:				
Net income (loss) available to common shareholders	$ 0.02	($ 0.05)	($ 0.02)	($ 0.16)
Weighted average shares - Basic	17,238	17,360	17,239	17,463
Weighted average shares - Diluted	17,640	17,360	17,239	17,463

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)

	Nine Months Ended September 30,	
	2011	2010
Operating Activities:		
Net loss	($ 342)	($ 2,752)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,914	3,945
Gain on bargain purchase of acquisition		(54)
Stock based compensation	2,523	3,475
Share based expense	89	
Loss on disposal/sale of property and equipment		(16)
Restructuring costs		178
Payment of withholding tax on stock based compensation	(1,226)	(809)
Deferred tax assets		(166)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	161	(2,435)
Inventories	(2,859)	(1,738)
Prepaid expenses and other assets	1,728	(1,341)
Accounts payable	843	2,219
Income taxes payable	(17)	(261)
Other accrued liabilities	(635)	1,240
Deferred revenue	(406)	715
Net cash provided by operating activities	3,773	2,200
Investing Activities:		
Capital expenditures	(4,146)	(885)
Proceeds from disposal of property and equipment		10
Purchase of investments	(41,213)	(22,252)
Redemptions/maturities of short-term investments	41,203	17,650
Purchase of assets/businesses, net of cash acquired		(2,109)
Net cash used in investing activities	(4,156)	(7,586)
Financing Activities:		
Proceeds from issuance of common stock	569	468
Payments for repurchase of common stock	(2,559)	(3,588)
Net cash used in financing activities	(1,990)	(3,120)
Net decrease in cash and cash equivalents	(2,373)	(8,506)
Effect of exchange rate changes on cash	30	14
Cash and cash equivalents, beginning of year	23,998	35,543
Cash and Cash Equivalents, End of Period	$ 21,655	27,051

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

PCTEL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2011 (Unaudited)

(in thousands except per share data and as otherwise noted)

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 LLC (PCTEL Secure), a joint venture among the Company and Eclipse Design Technologies, Inc. (Eclipse) 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) 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 acquisition of certain assets from Bluewave Antenna Systems, Ltd (Bluewave) in 2008, and the acquisitions of 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 ongoing 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 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

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and patented technology for Wider Network LLC 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, a joint venture limited liability company, with Eclipse. PCTEL Secure designs 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 September 30, 2011 and the condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2011 and 2010, respectively 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 condensed consolidated statements of operations for the three and nine months ended September 30, 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 nine months ended September 30, 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 September 30, 2011 may not be indicative of the results for the period ending 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 the condensed consolidated statement of operations. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were $7 and $0 for the three months ended September 30, 2011 and 2010, respectively. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were $27 and $23 for the nine months ended September 30, 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

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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 June 2011, the FASB issued ASU 2011-05 which provides new guidance on the presentation of comprehensive income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity and instead requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU will not have a significant impact on the Company s consolidated financial statements as it only requires a change in the format of the current presentation.

3. Balance Sheet Data

Cash and Cash Equivalents

At September 30, 2011, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At September 30, 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 insurable amounts.

At September 30, 2011, the Company had $16.9 million in cash and $4.8 million in cash equivalents and at December 31, 2010, the Company had $3.0 in cash and $21.0 in cash equivalents. The Company had $0.7 million of cash and cash equivalents in foreign bank accounts at September 30, 2011 and December 31, 2010, respectively. As of September 30, 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 September 30, 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 September 30, 2011, the Company had invested $23.1 million in pre-refunded municipal bonds, $13.6 million in U.S. government agency bonds and $10.3 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 September 30, 2011, the Company had $5.4 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 $31 at September 30, 2011. Approximately 11% of the Company s bonds were protected by bond default insurance at September 30, 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.

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 September 30, 2011 and December 31, 2010:

	September 30, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	$ 4,788	$	$	$ 4,788	$ 21,032	$	$	$ 21,032
Investments:								
US government agency bonds		13,578		13,578		19,036		19,036
Municipal bonds		23,126		23,126		19,378		19,378
Corporate debt securities		10,285		10,285		8,756		8,756
Total	$ 4,788	$ 46,989		$ 51,777	$ 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 $0.1 million at September 30, 2011 and $0.2 million at December 31, 2010. 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 September 30, 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 September 30, 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 $1.6 million and $1.0 million at September 30, 2011 and December 31, 2010, respectively.

Inventories consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Raw materials	$ 9,910	$ 7,613
Work in process	625	542
Finished goods	3,101	2,574
Inventories, net	$ 13,636	$ 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.

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Property and equipment consists of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Building	$ 6,207	$ 6,207
Computers and office equipment	7,542	4,450
Manufacturing and test equipment	8,653	7,707
Furniture and fixtures	1,169	1,127
Leasehold improvements	218	176
Motor vehicles	27	27
Total property and equipment	23,816	19,694
Less: Accumulated depreciation and amortization	(12,277)	(10,376)
Land	1,770	1,770
Property and equipment, net	$ 13,309	$ 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 September 30, 2011 and December 31, 2010 are as follows:

		September 30, 2011			December 31, 2010	
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	$ 16,763	$ 10,088	$ 6,675	$ 16,763	$ 8,743	$ 8,020
Patents and technology	7,408	6,100	1,308	6,312	6,007	305
Trademarks and trade names	2,603	2,289	314	2,603	2,074	529
Other	3,017	2,044	973	1,714	1,703	11
	$ 29,791	$ 20,521	$ 9,270	$ 27,392	$ 18,527	$ 8,865

The $0.4 million increase in the net book value of intangible assets at September 30, 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 $2.0 million for the nine months ended September 30, 2011. See Note 6 for information related to PCTEL Secure.

In December 2010, the Company recorded an impairment of 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 2011 and the next five years is as follows:

Fiscal Year	Amount
2011	$ 2,747
2012	$ 2,803

2013	$ 2,478
2014	$ 1,961
2015	$ 1,250
Thereafter	$ 25

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

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

Liabilities

Accrued liabilities consist of the following at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Payroll, bonuses, and other employee benefits	$ 2,576	$ 1,615
Inventory receipts	1,097	2,444
Paid time off	989	846
Warranties	560	257
Due to Wider	199	194
Due to Sparco shareholders	198	198
Real estate taxes	121	148
Restructuring	109	324
Employee stock purchase plan	104	232
Deferred revenues	95	501
Professional fees	67	208
Other	463	579
Total	$ 6,578	$ 7,546

Long-term liabilities consist of the following:

	September 30, 2011	December 31, 2010
Executive deferred compensation plan	$ 1,147	$ 1,187
Income taxes	824	824
Deferred rent	65	94
Deferred revenues		6
	$ 2,036	$ 2,111

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4. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic Earnings Per Share computation:				
Numerator:				
Net income (loss)	$ 218	($ 929)	($ 342)	($ 2,752)
Net loss attributable to noncontrolling interests	(274)		(740)	
Net income (loss) attributable to PCTEL, Inc.	492	(929)	398	(2,752)
Less: adjustments to redemption value of noncontrolling interests	(106)		(762)	
Net income (loss) available to common shareholders	$ 386	($ 929)	($ 364)	($ 2,752)
Denominator:				
Common shares outstanding	17,238	17,360	17,239	17,463
Earnings per common share - basic				
Net income (loss) available to common shareholders	$ 0.02	($ 0.05)	($ 0.02)	($ 0.16)
Diluted Earnings Per Share computation:				
Numerator:				
Net income (loss)	$ 218	($ 929)	($ 342)	($ 2,752)
Net loss attributable to noncontrolling interests	(274)		(740)	
Net income (loss) attributable to PCTEL, Inc.	492	(929)	398	(2,752)
Less: adjustments to redemption value of noncontrolling interests	(106)		(762)	
Net income (loss) available to common shareholders	$ 386	($ 929)	($ 364)	($ 2,752)
Denominator:				
Common shares outstanding	17,238	17,360	17,239	17,463
Restricted shares subject to vesting	330	*	*	*
Performance shares subject to vesting	72	*	*	*
Common stock option grants		*	*	*
Total shares	17,640	17,360	17,239	17,463
Earnings per common share - diluted				
Net income (loss) available to common shareholders	$ 0.02	($ 0.05)	($ 0.02)	($ 0.16)

* As denoted by * in the table above, the weighted average common stock option grants, performance shares and restricted shares of 465,000 for the nine months ended September 30, 2011, and 238,000 and 481,000 for the three and nine months ended September 30, 2010, respectively, were excluded from the calculations of diluted net loss per share since their effects are anti-dilutive.

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5. Comprehensive Income

The following table provides the calculation of other comprehensive income for the three and nine months ended September 30, 2011 and 2010, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$ 218	($ 929)	($ 342)	($ 2,752)
Foreign currency translation adjustments	12	21	41	16
Total comprehensive income (loss)	$ 230	($ 908)	($ 301)	($ 2,736)

6. PCTEL Secure

On January 5, 2011, the Company formed PCTEL Secure LLC, a joint venture limited liability company, with Eclipse Design Technologies, Inc (Eclipse). PCTEL Secure designs software and secure digital-based solutions that enables secure applications on commercial Android cellular phone platforms. The Company contributed $2.5 million in cash on the formation of the venture in return for 51% ownership of the joint venture. In return for 49% ownership of the joint venture, Eclipse contributed $2.4 million of intangible assets in the form of intellectual property and a services agreement, including an assembled workforce, to provide services.

The initial capitalization of PCTEL Secure was $4.9 million, consisting of $2.5 million of cash, $1.1 million of in-process research and development, $0.8 million for non-compete agreements, and $0.5 million for service agreements. The values for the intangible assets were the fair values of the intangible assets modeled at the time of execution of the agreements. The intangible assets are being amortized for book purposes, but are not deductible for tax purposes. The weighted average amortization period of the intangible assets acquired is 2.4 years. The Company estimated the fair value (and remaining useful lives) of the assets.

The Company provides services to PCTEL Secure at cost for facilities, financial services, general and administrative services, order management, manufacturing and distribution, and marketing services. The term of the Company s service agreement is through December 31, 2013, with one year extensions thereafter as agreed by the parties. The Company also entered into a line of credit agreement with PCTEL Secure. Under the terms of the line of credit agreement, the Company agreed to lend PCTEL Secure up to $4.0 million at an 8% fixed interest rate. The maturity date for this agreement is June 30, 2014. There were no borrowings under this line of credit during nine months ended September 30, 2011.

Based on review of accounting rules for consolidation, the Company concluded that (a) it has financial control of PCTEL Secure as it holds two of the three Board seats and (b) Eclipse s rights under the agreements are protective rights that do not override the presumption that the majority owned subsidiary should be consolidated. Therefore, the Company has consolidated the financial results of PCTEL Secure into the Company s consolidated financial statements for the three and nine months ended September 30, 2011.

The limited liability company agreement of PCTEL Secure (LLC agreement) provides several mechanisms for the orderly transition of the Company s ownership from 51% to 100%. The LLC agreement also includes participation rights that require the Company to pay Eclipse 10% or 5% of the amount by which the net proceeds exceed the enterprise value if the Company sells PCTEL Secure before December 31, 2014 or 2015, respectively. The features are summarized as follows:

Instrument	Notional Amount	Contingency	Period
The Company s 1st call right	19% of membership interests	None	1/1/2012 - 3/31/2012
Eclipse s put right	19% of membership interests	Exercisable if the Company does not exercise 1st call right	4/1/2012 - 4/10/2012
The Company s 2nd call right	Remaining Eclipse membership interests	Purchase all of remaining Eclipse interests	10/1/2013 - 12/31/2013

Eclipse s participation right	10% of the difference between net proceeds from sale and enterprise value	The Company exercises 2nd call right and sells subsidiary within 12 months	ends 12/31/14
Eclipse s participation right	5% of the difference between net proceeds from sale and enterprise value	The Company exercises 2nd call right and sells subsidiary between 13 and 24 months	ends 12/31/15
The Company s 3rd call right	Remaining Eclipse membership interests	The Company does not exercise 2nd call right	begins 7/1/2014

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The Company s 1st call right: the Company has the right to exercise its 1st call right during the period January 1, 2012 through March 31, 2012, which would require Eclipse to sell to the Company 19% of its membership interests for a price that represents 19% of the enterprise value (EV) on the exercise date, with a provision that the minimum price is 19% of $4.9 million.

Eclipse put right: If the Company does not exercise the first call right, then at any time during the period April 1, 2012 through April 10, 2012, Eclipse can exercise its put right to require the Company to purchase Eclipse s interest in PCTEL Secure at the price of 19% of $4.9 million.

The Company s 2nd call right: During the period October 1, 2013 through December 31, 2013, the Company has the option to issue a notice to Eclipse requiring it to sell to the Company all of its remaining membership interests in PCTEL Secure at the EV, with a provision that minimum EV is $4.9 million. Such remaining membership interests could represent between 30% and 49%, depending on whether the 1st call or the Eclipse put right were exercised.

Eclipse participation right: If the Company exercises the 2nd call right and subsequently sells PCTEL Secure within 12 months of exercising the 2nd call right, then Eclipse holds a participation right that requires the Company to pay to Eclipse 10% of the amount by which the net proceeds exceed the EV used in the calculation of the price of the 2nd call right. Also, if the Company exercises the 2nd call right and subsequently sells the subsidiary between 13 months and 24 months of exercising the 2nd call right, then Eclipse holds a participation right that requires the Company to pay to Eclipse 5% of the amount by which the net proceeds exceed the EV used in the calculation of the price of the 2nd call right. (If consideration for the sale is received by the Company in a form other than cash, Eclipse is entitled to 10% or 5% of non-cash consideration received as proceeds.)

The Company s 3rd call right: If the 2nd call right is not exercised, and after 8 months, Eclipse fails to complete a sale of its membership interests, then the Company has the right to purchase Eclipse s membership interests using the EV calculated at the expiration of the 2nd call right.

The EV is based on a multiple of revenues and backlog. In accordance with accounting for redeemable financial instruments, the Company determined that the $0.9 million fair value of this put right is classified as redeemable equity. It is redeemable equity because the price is fixed for this financial instrument, and the 19% of Eclipse s membership interest can be redeemed at the option of the holder, Eclipse, through the exercise of its put right, or at the option of the Company, through the exercise of its first call right.

Eclipse identified an employee of PCTEL Secure and two contractors for Eclipse as key contributors of services. Eclipse entered into cash bonus arrangements with the three key contributors. The bonus agreements grant these key contributors the right for each to receive a cash bonus from the net proceeds received by Eclipse upon exercise of Eclipse s exit option, the Company s 2nd call right, or the Company s 3rd call right, which results in a qualifying sale of Eclipse s membership interests in the subsidiary. Participation in the net proceeds paid to Eclipse from a qualifying sale of Eclipse s membership interests is equivalent to each key contributor having been a 5% owner of PCTEL Secure. The Company has determined that the qualifying sale of Eclipse s membership interests is probable of occurrence upon the date of formation on January 5, 2011. The Company has control over the entity based on its ownership position and number of board seats. PCTEL has the ability to exercise the call rights as it has $68.6 million in cash and investments and no debt. The Company is a designer and developer of software-based radios for the wireless industry. The development program undertaken within PCTEL Secure is part of the Company s strategic growth strategy, and it is the Company s intent to acquire the joint venture for the products it is creating.

The Company recorded $0.1 million and $0.2 million of compensation expense for share-based payments in accordance with accounting for stock compensation for the three key contributors of PCTEL Secure during the three and nine months ended September 30, 2011, respectively. Each key contributor receives a specific percentage of the net proceeds received by Eclipse upon a qualifying sale of its interests and the amount of proceeds for the qualifying sale are determined based on a predetermined multiple of revenues and backlog. Forfeiture is unlikely because of sufficiently large disincentives for nonperformance. For these key contributors, the Company recorded the pro-rata portion of the total expense to be recognized over the requisite service period of three years. The fair value of the bonus amounts was based on 15% of the current equity value. Subsequent changes in the fair value for the awards will be recognized in earnings each reporting period. Since the Company is a noncontributing investor to the share-based payment arrangements, the Company recognized income equal to the amount that its interest in PCTEL Secure s equity increased as a result of the disproportionate funding of the compensation costs. This amount is included in other income, net in the condensed consolidated statements of operations for the three and nine months ended September 30, 2011.

PCTEL Secure incurred losses of $0.5 million and $1.5 million for the three and nine months ended September 30, 2011, respectively. Since the allocation of PCTEL Secure s profits and losses is based on its prorated share of unit ownership, the Company recorded $0.3 million and $0.7 million as net loss attributable to noncontrolling interest for the three and nine months ended September 30, 2011. See the segment information in Note 14 for information related to the financial results of PCTEL Secure. The noncontrolling equity on the balance sheet

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reflects Eclipse s share of the equity of PCTEL Secure. The noncontrolling equity includes permanent equity of $1.6 million and redeemable equity of $0.9 million. The redeemable equity is reflected in the mezzanine section of the balance sheet. See Note 9 related to equity for the reconciliation of these noncontrolling interest amounts.

7. Acquisitions

Acquisition of Sparco Technologies, Inc.

On January 12, 2010, the Company acquired all of the outstanding share capital of Sparco pursuant to a Share Purchase Agreement among the Company, Sparco, and David R. Dullnig, Valerie Dullnig, Chris Cooke, and Glenn Buckner, the holders of the outstanding share capital of Sparco. Sparco is a San Antonio, Texas based company that specializes in selling value-added wireless local area network (WLAN) products and services to the enterprise, education, hospitality, and healthcare markets. Sparco s product line includes antennas for WLAN, national electrical manufacturer s association (NEMA) enclosures and mounting accessories, site survey tools, and amplifiers. With this acquisition, the Company extended its product offering, channel penetration and technology base in wireless enterprise products.

The Company assumed a lease for a 6,300 square foot facility used for operations and sales activities in San Antonio, Texas that expired in January 2011. The Company integrated Sparco s manufacturing and distribution operations in its Bloomingdale, Illinois facility in the third quarter 2010 and moved the sales offices to a new location in San Antonio, Texas in January 2011.

The consideration for Sparco was $2.5 million, consisting of $2.4 million in cash consideration and $0.1 million related to the Company s outstanding receivable balance from Sparco at the date of acquisition. Of the $2.4 million cash consideration, $2.1 million was payable to the Sparco shareholders and $0.3 million was used to discharge outstanding debt liabilities. At September 30, 2011 and December 31, 2010, approximately $0.2 million remains outstanding, consisting of the final payments due related to shareholders or to third parties. The $0.2 million due is included in accrued liabilities. The cash consideration paid in connection with the acquisition was provided from the Company s existing cash. The acquisition related costs for the Sparco purchase were not significant to the Company s condensed consolidated financial statements.

The consideration was allocated based on fair value: $1.1 million to net tangible liabilities, $3.3 million to customer relationships, $0.3 million to trade names and other intangible assets. The fair value of the net assets acquired exceeded the total investment by $54. This $54 gain on the bargain purchase of Sparco was recorded in other income, net in the condensed consolidated statements of operations. There was no goodwill recorded with this transaction. The consideration was determined based on the fair value of the intangible assets modeled at the time of the negotiation, which were updated at the time of closing. An immaterial bargain purchase amount resulted from the process of validating the Company s initial fair value model assumptions with actual performance information from the first quarter of operations. The intangible assets are being amortized for book purposes, but are not deductible for tax purposes. At the date of the acquisition, the weighted average amortization period of the intangible assets acquired was 5.3 years. The Company estimated the fair value (and remaining useful lives) of the assets and liabilities.

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The following is the allocation of the purchase price for Sparco at the date of the acquisition:

Current assets:	
Cash	$ 91
Accounts receivable	269
Prepaids and other assets	5
Inventories	205
Fixed assets	10
Deferred tax assets	53
Total current assets	633
Intangible assets:	
Customer relationships	3,350
Trade names	268
Backlog	12
Non-compete	11
Total intangible assets	3,641
Total assets	4,274
Current liabilities:	
Accounts payable	326
Accrued liabilities	46
Total current liabilities	372
Long term liabilities:	
Deferred tax liabilities	1,347
Total long term liabilities	1,347
Total liabilities	1,719
Net assets acquired	$ 2,555

Purchase of assets from Ascom Network Testing, Inc.

On December 30, 2009, the Company entered into and closed an Asset Purchase Agreement (the Ascom APA) with Ascom. Under the terms of the Ascom APA, the Company acquired all of the assets related to Ascom s scanning receiver business (WTS scanning receivers). The WTS scanners receiver business was a small part of Comarco s WTS segment, a business that Ascom acquired in 2009. The WTS scanning receivers augment the Company s scanning receiver product line.

The WTS scanning receiver business has been integrated with the Company s scanning receiver operations in Germantown, Maryland. As contemplated by the Ascom APA, the parties concurrently entered into a Transition Services Agreement (TSA). Under the TSA, Ascom manufactured and assembled the scanner products until the operations were integrated with the Company s own operations in its Germantown, Maryland facility. The TSA was completed as of June 30, 2010. In accordance with the Ascom APA, the Company also funded the development of compatibility between its scanning receivers and Ascom s benchmarking solution.

Separately, the Company and Ascom renewed their existing supply agreement, which remains non-exclusive. Under the supply agreement, the Company continues to supply both the Company s scanning receivers and the WTS scanning receivers to the newly formed Ascom Network Testing Division that consolidated the testing businesses for mobile telecom carriers of Ascom.

The purchase price of $4.5 million for the scanning receiver assets of Ascom was allocated based on fair value: $0.3 million to net tangible assets, $3.8 million to customer relationships, $0.3 million to core technology and trade names, and $0.1 million to other intangible assets. The technology includes $0.2 million of in-process R&D related to LTE scanner development. The projects related to the in-process research and development was completed in the third quarter of 2010. The tangible assets include inventory and warranty obligations. There was no goodwill recorded from this acquisition. The intangible assets are being amortized for book purposes and are tax deductible. At the date of

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the acquisition, the weighted average book amortization period of the intangible assets was 5.2 years. The Company estimated the fair value (and remaining useful lives) of the assets and liabilities.

The following is the allocation of the purchase price for Ascom at the date of the acquisition:

Current assets:	
Inventory	$ 248
Intangible assets:	
Core technology	254
Customer relationships	3,833
Trade names	52
Other, net	130
Total intangible assets	4,269
Total assets	4,517
Current liabilities:	
Warranty accrual	26
Total current liabilities	26
Net assets acquired	$ 4,491

The purchase price was based on $4.3 million paid at the close of the transaction and $0.2 million of contingent consideration due in two equal installments in December 2010 and 2011, respectively. The cash consideration paid in connection with the acquisition was provided from the Company s existing cash. The $0.2 million of contingent consideration was based upon achievement of certain revenue objectives and at December 31, 2009, the Company included the future payments due in the purchase price because it believed that the achievement of these objectives was more likely than not. The revenue target for 2010 was not met, and as of December 31, 2010, the Company determined that the revenue target for 2011 would more than likely not be met. At December 31, 2010, the Company recorded a write off of the $0.2 million contingent consideration as miscellaneous income. Due to the revised revenue projections for the WTS scanning receivers, the Company also recorded impairment expense of $0.2 million. See the intangible asset section of Note 1 for further discussion of the intangible asset impairment for Ascom.

8. Stock-Based Compensation

The condensed consolidated statements of operations include $0.7 million and $2.5 million of stock compensation expense for the three and nine months ended September 30, 2011, respectively. Stock compensation expense for the three months ended September 30, 2011 consists of $0.6 million for restricted stock awards and $0.1 million for performance share awards, stock option and stock purchase plan expenses. Stock compensation expense for the nine months ended September 30, 2011 consists of $2.1 million for restricted stock awards, $0.2 million for performance share awards, and $0.2 million for stock option and stock purchase plan expenses.

The condensed consolidated statements of operations include $1.0 million and $3.5 million of stock compensation expense for the three and nine months ended September 30, 2010, respectively. Stock compensation expense for the three months ended September 30, 2010 consists of $0.7 million for restricted stock awards, $0.1 million for performance share awards, $0.1 million for stock option and stock purchase plan expenses and $0.1 million for stock bonuses. Stock compensation expense for the nine months ended September 30, 2010 consists of $2.6 million for restricted stock awards, $0.3 million for performance share awards, $0.2 million for stock option and stock purchase plan expenses, and $0.4 million for stock bonuses.

The Company did not capitalize any stock compensation expense during the three and nine months ended September 30, 2011 or 2010, respectively. The Company did not issue any stock awards to employees or contributors of PCTEL Secure during the three and nine months ended September 30, 2011.

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Total stock-based compensation is reflected in the condensed consolidated statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cost of revenues	$ 67	$ 81	$ 204	$ 337
Research and development	139	164	451	518
Sales and marketing	155	238	494	719
General and administrative	351	485	1,374	1,901
Total	$ 712	$ 968	$ 2,523	$ 3,475

Restricted Stock Service Based

The Company grants restricted shares as employee incentives as permitted under the Company s 1997 Stock Plan, as amended and restated (1997 Stock Plan). In connection with the grant of restricted stock to employees, the Company records deferred stock compensation representing the fair value of the common stock on the date the restricted stock is granted. Stock compensation expense is recorded ratably over the vesting period of the applicable shares. These grants vest over various periods, but typically vest over four years.

For the three months ended September 30, 2011, the Company did not issue any restricted stock awards and recorded cancellations of 7,700 shares with grant date fair value of $46. For the nine months ended September 30, 2011, the Company issued 154,750 shares of restricted stock with grant date fair value of $1.0 million and recorded cancellations of 30,125 shares with grant date fair value of $0.2 million.

For the three months ended September 30, 2011, 1,425 restricted shares vested with grant date fair value of $10 and intrinsic value of $9. For the nine months ended September 30, 2011, 397,646 restricted shares vested with grant date fair value of $2.5 million and intrinsic value of $2.9 million.

For the three months ended September 30, 2010, the Company did not issue any restricted shares and recorded cancellations of 45,050 shares with grant date fair value of $0.3 million. For the nine months ended September 30, 2010, the company issued 743,250 shares of restricted stock with grant date fair value of $4.6 million and recorded cancellations of 122,800 shares with grant date fair value of $0.7 million.

For the three months ended September 30, 2010, 84,825 restricted shares vested with grant date fair value of $0.7 million and intrinsic value of $0.4 million. For the nine months ended September 30, 2010, 419,025 restricted shares vested with grant date fair value of $2.9 million and intrinsic value of $2.4 million.

At September 30, 2011, total unrecognized compensation expense related to restricted stock was approximately $3.9 million, net of forfeitures to be recognized through 2016 over a weighted average period of 1.7 years.

The following table summarizes restricted stock activity for the nine months ended September 30, 2011: