

Edgar Filing: PC TEL INC - Form 10-Q/A

PC TEL INC
Form 10-Q/A
May 14, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended March 31, 2004

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
(State or Other Jurisdiction of
Incorporation or Organization)

77-0364943
(I.R.S. Employer Identification
Number)

8725 W. Higgins Road, Suite 400, Chicago IL
(Address of Principal Executive Office)

60631
(Zip Code)

(773) 243-3000
(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 Exchange Act during the past
12 months (or for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the past
90 days. Yes No

Indicate by a check mark whether the Registrant is an accelerated filer (as
defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

As of May 3, 2004, there were 20,937,359 shares of the Registrant's Common Stock
outstanding.

EXPLANATORY NOTE

This Form 10-Q/A is being filed for the sole purpose of correcting a
typographical error that appeared in our Form 10-Q filed on May 10, 2004, in
Part I. Financial Information, Item 1. Financial Statements under the heading
"Industry Segment, Customer and Geographic Information." The results of
operations by segment table for the three months ended March 31, 2003 that

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appeared under this heading included amounts under the column heading "Elimination" that should have been included under the column heading "Modems."

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PCTEL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE INFORMATION)

	MARCH 31,	DE
	2004	2003
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 95,996	\$
Restricted cash	278	
Short-term investments	11,156	
Accounts receivable, net of allowance for doubtful accounts of \$153 and \$50, respectively	5,792	
Inventories, net	3,082	
Prepaid expenses and other assets	3,207	

Total current assets	119,511	
PROPERTY AND EQUIPMENT, net	4,572	
GOODWILL	11,335	
OTHER INTANGIBLE ASSETS, net	10,329	
OTHER ASSETS	60	

TOTAL ASSETS	\$ 145,807	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 859	\$
Accrued royalties	3,213	
Income taxes payable	5,456	
Deferred revenue	2,370	
Accrued liabilities	6,507	

Total current liabilities	18,405	
Long-term liabilities	736	

Total liabilities	19,141	

STOCKHOLDERS' EQUITY:		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 20,816,095 and 20,145,824 issued and outstanding at March 31, 2004 and December 31, 2003, respectively	21	
Additional paid-in capital	162,146	
Deferred stock compensation	(4,910)	
Accumulated deficit	(30,669)	
Accumulated other comprehensive income	78	

Total stockholders' equity	126,666	

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 145,807
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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 INFORMATION)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
REVENUES	\$ 10,690	\$ 13,082
COST OF REVENUES	3,769	7,907
INVENTORY RECOVERY	--	(1,348)
	-----	-----
GROSS PROFIT	6,921	6,523
	-----	-----
OPERATING EXPENSES:		
Research and development	2,030	2,118
Sales and marketing	2,934	2,261
General and administrative	3,176	1,852
Amortization of other intangible assets	711	99
Acquired in-process research and development	--	1,100
Restructuring charges	(51)	155
Gain on sale of assets and related royalties	(500)	--
Amortization of deferred compensation	310	299
	-----	-----
Total operating expenses	8,610	7,884
	-----	-----
LOSS FROM OPERATIONS	(1,689)	(1,361)
OTHER INCOME, NET	239	495
	-----	-----
LOSS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	(1,450)	(866)
PROVISION (BENEFIT) FOR INCOME TAXES	(982)	64
	-----	-----
NET LOSS	\$ (468)	\$ (930)
	=====	=====
Basic earnings (loss) per share	\$ (0.02)	\$ (0.05)
Shares used in computing basic earnings (loss) per share	19,901	19,238
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.05)
Shares used in computing diluted earnings (loss) per share	19,901	19,238

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

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PCTEL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED, IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (468)	\$ (930)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	939	400
In-process research and development	--	1,100
Gain (loss) on disposal/sale of fixed assets	--	(12)
Recovery of allowance for doubtful accounts	--	(127)
Amortization of deferred compensation	310	299
Changes in operating assets and liabilities:		
Decrease in accounts receivable	322	1,092
(Increase) decrease in inventories	33	(772)
(Increase) decrease in prepaid expenses and other assets	(1,147)	744
Increase (decrease) in accounts payable	(182)	996
(Decrease) in accrued royalties	(4)	(128)
(Decrease) in income taxes payable	(1,924)	(120)
Increase (decrease) in deferred revenue	(590)	4
(Decrease) in accrued liabilities	(1,022)	(73)
Increase in long-term liabilities	--	273
Tax benefit from stock option exercises	433	--
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,300)	2,746
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for property and equipment	(443)	(120)
Proceeds on sale of property and equipment	3	113
Sales of available-for-sale investments	8,006	15,049
Purchase of assets/business, net of cash acquired	(17,777)	(10,762)
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(10,211)	4,280
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	3,498	865
Payments for repurchase of common stock	--	(3,361)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	3,498	(2,496)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(10,013)	4,530
Cumulative translation adjustment	2	(3)
Cash and cash equivalents, beginning of period	106,007	52,986
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 95,996	\$ 57,513

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, 2004 (UNAUDITED)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by PCTEL, Inc. (unless otherwise noted, "PCTEL", the "Company", "we", "us" or "our" refers to PCTEL, Inc.), pursuant to the laws and regulations of the Securities and Exchange Commission for the requirements of Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the disclosures are adequate to make the information not misleading. The condensed balance sheet as of December 31, 2003 has been derived from the audited financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The unaudited condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the periods indicated. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for future periods or the year ending December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

INVENTORIES

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the FIFO method of costing. Inventories at March 31, 2004 and December 31, 2003 consist of the following (in thousands):

MARCH 31,	DECEMBER 31,
2004	2003
-----	-----

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Raw Materials	\$ 572	\$ 780
Work in process	64	5
Sub assemblies	578	527
Finished Goods	2,033	10
	-----	-----
Sub-total	\$ 3,247	\$ 1,322
	-----	-----
Allowance	(165)	(55)
	-----	-----
Total inventories	\$ 3,082	\$ 1,267
	-----	-----

EARNINGS PER SHARE

We compute earnings per share in accordance with SFAS No. 128, "Earnings Per Share". SFAS No. 128 requires companies to compute net income per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding, less shares subject to repurchase. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of stock options using the treasury stock method. Common stock options are excluded from the computation of diluted earnings per

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share if their effect is anti-dilutive.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three months ended March 31, 2004 and 2003, respectively (in thousands, except per share data):

	THREE MONTHS ENDED	
	MARCH 31,	
	2004	2003
	----	----
	(UNAUDITED)	
Numerator:		
Net loss	\$ (468)	\$ (
	=====	=====
Denominator:		
Basic earnings (loss) per share:		
Weighted average common shares outstanding	20,532	19,
Less: Weighted average shares subject to repurchase	(631)	(
	-----	-----
Weighted average common shares outstanding	19,901	19,
	-----	-----
Basic earnings (loss) per share	\$ (0.02)	\$ (0
	=====	=====
Diluted earnings (loss) per share:		
Weighted average common shares outstanding	19,901	19,

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Weighted average shares subject to repurchase	-*	
Weighted average common stock option grants	-*	
	-----	-----
Weighted average common shares and common stock equivalents outstanding	19,901	19,
	-----	-----
Diluted earnings (loss) per share	\$ (0.02)	\$ (0
	=====	=====

* These amounts have been excluded since the effect is anti-dilutive.

STOCK-BASED COMPENSATION

The Company accounts for its stock option plans using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", whereby compensation cost for stock options is measured as the excess, if any, of the fair market value of a share of the Company's stock at the date of the grant over the amount that must be paid to acquire the Stock. SFAS No. 123, "Accounting for Stock-Based Compensation", issued subsequent to APB No. 25 - and amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", defines a fair value based method of accounting for employee stock options, but allows companies to continue to measure compensation cost for employees using the intrinsic value method of APB No. 25. The following table illustrates the pro forma information regarding net income (loss) and net income (loss) per share as if we recorded compensation expense based on the fair value of stock-based awards in accordance with Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" for the three months ended March 31, 2004 and 2003 (in thousands, except per share data):

	THREE MONTHS ENDED MARCH 31,	
	----- 2004 ----	----- 2003 ----
Net loss -- as reported	\$ (468)	\$ (930)
Add: Stock-based employee compensation	310	299
Expense included in reported net loss		
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards.....	1,489	782
Net loss --as adjusted	\$ (1,647)	\$ (1,413)
Net (loss) income per share--basic as reported	\$ (0.02)	\$ (0.05)
Net (loss) income per share--basic as adjusted	\$ (0.08)	\$ (0.07)
Net (loss) income per share--diluted as reported	\$ (0.02)	\$ (0.05)
Net (loss) income per share--diluted as adjusted	\$ (0.08)	\$ (0.07)

These costs may not be representative of the total effects on pro forma reported income (loss) for future years. Factors that may also impact disclosures in future years include the attribution of the awards to the service period, the vesting period of stock awards, timing of additional grants of stock option awards and the number of shares granted for future awards.

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-

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pricing model as prescribed by SFAS 123 using the following assumptions:

	STOCK OPTIONS		EMPLOYEE STOCK PURCHASE PLAN	
	2004	2003	2004	2003
Dividend yield	None	None	None	None
Expected volatility	46%	55%	46%	55%
Risk-free interest rate	2.1%	2.4%	1.0%	1.1%
Expected life (in years)	3.07	2.75	0.5	0.5

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate the existing models may not necessarily provide a reliable single measure of the fair value of our employee stock options. Restricted stock awards are recorded at the fair market value of the stock on the date of grant and are expensed over the vesting period.

INDUSTRY SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION

In 2003 the company operated as a single segment. In January 2004, with the acquisition of MAXRAD and revenue traction in our Segue product line, the company began operating in four distinct segments. They are the Software segment, represented by the Segue product line, the Test segment, represented by the DTI product line, the Antenna segment, represented by the MAXRAD product line, and the Licensing segment. In 2003, the company also had a modem product line which it sold to Conexant in May of that year.

The results of operations by segment are as follows:

	SOFTWARE	TEST	ANTENNA	LICENSING
Revenue, three months ended March 31, 2004	\$ 1,118	\$ 2,367	\$ 5,112	\$ 2,103
Gross Profit	\$ 1,085	\$ 1,616	\$ 2,137	\$ 2,086
Operating Expenses				
Operating (Loss)				

	SOFTWARE	TEST	ANTENNA	LICENSING
Revenue, three months ended March 31, 2003	\$ 122	\$ 567		\$ 1,913
Gross Profit	\$ 109	\$ 437		\$ 1,913
Operating Expenses				

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Operating (Loss)

The Company's chief operating decision maker (CEO) uses only the above measures in deciding how to allocate resources and assess performance among the segments.

Our sales to customers outside of the United States, as a percent of total revenues, are as follows:

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
	(UNAUDITED)	
Taiwan	2%	63%
China	-%	21%
Japan	1%	2%
Rest of Asia	2%	2%
Europe	10%	-%
Central and Latin America	6%	-%
Canada	5%	-%
	--	--
Total	26%	88%
	==	==

Sales to our major customers representing greater than 10% of total revenues are as follows:

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CUSTOMER	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
	(UNAUDITED)	
Askey	-%	21%
Lite-on Technology (GVC)	-%	22%
Prewell	-%	21%
	-----	-----
Total	-%	64%
	=====	==

COMPREHENSIVE INCOME

The following table provides the calculation of other comprehensive income for the three months ended March 31, 2004 and 2003 (in thousands):

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THREE MONTHS
MARCH

2004

(UNAUDITED)

Net loss	\$ (468)
Other comprehensive income:	
Unrealized gains (loss) on available-for-sale securities	(15)
Cumulative translation adjustment	2

Comprehensive income (loss)	\$ (481)
	=====

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the Financial Accounting Standards Board issued Interpretation 46R (FIN 46R), a revision to Interpretation 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R is effective at the end of the first interim period ending after March 15, 2004. Adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

3. ACQUISITION

On January 2, 2004, we completed our acquisition of MAXRAD, Inc. MAXRAD is a manufacturer of wireless communications antennas for broadband wireless, in-building wireless and land mobile radio applications. In connection with the acquisition, we, MAXRAD, and the shareholders of MAXRAD and certain other parties entered into a Securities Purchase Agreement, dated as of January 2, 2004, pursuant to which we acquired all of the outstanding capital stock of MAXRAD.

In exchange for the outstanding capital stock of MAXRAD, we paid \$18.2 million, net of cash acquired of \$2.4 million, out of our available working capital.

The purchase price of \$18.2 million in cash, of which \$0.4 million was paid in April 2004, was allocated \$5.5 million to net assets acquired, \$0.9 million to the covenant not to compete, \$1.3 million to core technology, \$3.2 million to customer lists, \$1.4 million to trademarks and \$0.1 million to other intangible assets, net, in the accompanying consolidated balance sheets. The \$5.8 million excess of the purchase price over the fair value of the net tangible and intangible assets was allocated to goodwill, which is deductible for tax purposes. We will amortize the covenant not to compete over two years and other intangible assets over an estimated useful life of six and eight years.

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The unaudited pro forma effect of the financial results of PCTEL as if the acquisition had taken place on January 1, 2003 is as follows:

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	THREE MONTHS ENDED MARCH 31, 2003 -----
REVENUES	\$ 17,187
LOSS FROM OPERATIONS	(464)
NET LOSS	\$ (535)
	=====
Basic earnings (loss) per share	\$ (0.03)
Shares used in computing basic earnings (loss) per share	19,238
Diluted earnings (loss) per share	\$ (0.03)
Shares used in computing diluted earnings (loss) per share	19,238

4. GOODWILL AND OTHER INTANGIBLE ASSETS DISCLOSURE

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No.'s 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 supersedes Accounting Principles Board Opinion ("APB") No. 17 and addresses the financial accounting and reporting standards for goodwill and intangible assets subsequent to their initial recognition. SFAS No. 142 requires that goodwill no longer be amortized. It also requires that goodwill and other intangible assets be tested for impairment at least annually and whenever events or circumstances occur indicating that goodwill might be impaired. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. The Company adopted SFAS No. 142 on January 1, 2002 at which time the Company ceased amortization of goodwill. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001 and must be applied to all goodwill and other intangible assets that are recognized in an entity's balance sheet at the beginning of that fiscal year.

The changes in the carrying amount of goodwill and other intangible assets as of March 31, 2004 were as follows (in thousands):

	GOODWILL, NET -----
Balance at December 31, 2003	\$ 5,561
Goodwill from the acquisition of MAXRAD	5,774

Balance at March 31, 2004	\$ 11,335
	=====

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INTANGIBLE ASSETS -----	MARCH 31, 2004 -----	DECEMBER 31, 2003 -----
Developed technology-cyberPIXIE	\$ 452	\$ 452
Other intangible assets-DTI	4,600	4,600
Patents	300	300
Other intangible assets-MAXRAD	5,500	--
Trademark-MAXRAD	1,400	--
	-----	-----
	\$ 12,252	\$ 5,352
	=====	=====
Less: Accumulated amortization	\$ (1,923)	\$ (1,212)
	=====	=====
Net intangible assets	\$ 10,329	\$ 4,140
	=====	=====

5. RESTRUCTURING CHARGES

2003 Restructuring

In May 2003, the Company completed the sale of certain of its assets to Conexant relating to a component of PCTEL's HSP modem product line. As a result of the disposition, 29 employees were transferred to Conexant. An additional 26 employees, both foreign and domestic, were terminated along with the related facilities closures. The total restructuring aggregated \$3.3 million consisting of severance and employment related costs of \$1.7 million and costs related to closure of excess facilities as a result of the reduction in force of \$1.6 million.

As of March 31, 2004, approximately \$1.5 million of termination compensation and related benefits had been paid to terminated employees and approximately \$0.5 million of lease payments and related costs had been paid to

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the landlord for the excess facilities. As of March 31, 2004, the remaining accrual balance of \$1.3 million restructuring will be paid monthly through January 2006. The following analysis sets forth the rollforward of this charge:

	ACCRUAL BALANCE AT DECEMBER 31, 2003 ----	RESTRUCTURING CHARGES -----	PAYMENTS -----
Severance and employment related costs	\$ 633	\$ (101)	\$ 291
Costs for closure of excess facilities	977	50	1
	-----	-----	-----
	\$ 1,610	\$ (51)	\$ 292
	=====	=====	=====
Amount included in long-term liabilities			
Amount included in short-term liabilities			

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6. CONTINGENCIES:

We record an accrual for estimated future royalty payments for relevant technology of others used in our product offerings in accordance with SFAS No. 5, "Accounting for Contingencies." The estimated royalties accrual reflects management's broader litigation and cost containment strategies, which may include alternatives such as entering into cross-licensing agreements, cash settlements and/or ongoing royalties based upon our judgment that such negotiated settlements would allow management to focus more time and financial resources on the ongoing business. We have accrued our estimate of the amount of royalties payable for royalty agreements already signed, agreements that are in negotiation and unasserted but probable claims of others using advice from third party technology advisors and historical settlements. Should the final license agreements result in royalty rates significantly greater than our current estimates, our business, operating results and financial condition could be materially and adversely affected.

As of March 31, 2004 and December 31, 2003, we accrued royalties of approximately \$3.2 million. While management is unable to estimate the maximum amount of the range of possible settlements, it is possible that actual settlements could exceed the amounts accrued as of each date presented.

As part of the acquisition of DTI there is an earn-out over two years if certain milestones are achieved. At PCTEL's option, DTI could be paid in PCTEL stock or cash. For the year ended December 31, 2003, DTI earned \$1.5 million cash payout that was paid on May 4, 2004. The Company is estimating the 2004 DTI earn-out to be \$1.5 to \$2.2 million.

We have from time to time in the past received correspondence from third parties, and may receive communications from additional third parties in the future, asserting that our products infringe on their intellectual property rights, that our patents are unenforceable or that we have inappropriately licensed our intellectual property to third parties. We expect these claims to increase as our intellectual property portfolio becomes larger. These claims could affect our relationships with existing customers and may prevent potential future customers from purchasing our products or licensing our technology. Intellectual property claims against us, and any resulting lawsuit, may result in our incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and could divert management's time and attention. In addition, any claims of this kind, whether they are with or without merit, could cause product shipment delays or require us to enter into royalty or licensing agreements. In the event that we do not prevail in litigation, we could be prevented from selling our products or be required to enter into royalty or licensing agreements on terms, which may not be acceptable to us. We could also be prevented from selling our products or be required to pay substantial monetary damages. Should we cross license our intellectual property in order to obtain licenses, we may no longer be able to offer a unique product. To date, we have not obtained any licenses from 3Com and the other companies from whom we have received communications.

Ronald H. Fraser v. PC-Tel, Inc., Wells Fargo Shareowner Services, Wells Fargo Bank Minnesota, N.A.

On March 19, 2002, plaintiff Ronald H. Fraser ("Fraser") filed a Verified Complaint (the "Complaint") in Santa Clara County (California) Superior Court for breach of contract and declaratory relief against the Company, and for breach of contract, conversion, negligence and declaratory relief against the Company's transfer agent, Wells Fargo

Bank Minnesota, N.A ("Wells Fargo"). The Complaint seeks compensatory damages allegedly suffered by Fraser as a result of the sale of certain stock by Fraser during a secondary offering on April 14, 2000. Wells Fargo filed a Verified Answer to the Complaint on June 12, 2002. On July 10, 2002, the Company filed a Verified Answer to the Complaint, denying Fraser's claims and asserting numerous affirmative defenses. Wells Fargo and the Company have each filed Cross-complaints against the other for indemnity. On November 18, 2002, the parties conducted mediation but were unable to reach a settlement.

Trial of this matter had been set for January 12, 2004, however, the trial date was vacated in light of the amended complaint filed by Fraser following his motion for leave to amend heard on December 9, 2003. The Company intends to re-file its Motion for Summary Judgment or, alternatively, Summary Adjudication, against Fraser. Trial is now scheduled for September 20, 2004. We believe that we have meritorious defenses and intend to vigorously defend the action. Because the action is still in its early stages, we are not able to predict the outcome at this time.

Litigation with U.S. Robotics

On May 23, 2003, we filed in the U.S. District Court for the Northern District of California a patent infringement lawsuit against U.S. Robotics Corporation claiming that U.S. Robotics has infringed one of our patents. U.S. Robotics filed its answer and counterclaim asking for a declaratory judgment that the claims of the patent are invalid and not infringed. This case has been consolidated for claims construction discovery with the litigation against 3Com Corporation, and Agere Systems and Lucent Technologies. Claims construction discovery under the Patent Local Rules is underway, and a status conference is set for May 11, 2004. No trial date has been set. We believe we have meritorious claims and defenses. However, because the action is still in its early stages, we are not able to predict the outcome at this time.

Litigation with Broadcom

On May 23, 2003, we filed in the U.S. District Court for the Northern District of California a patent infringement lawsuit against Broadcom Corporation claiming that Broadcom has infringed four of our patents. Broadcom filed its answer and counterclaim asking for a declaratory judgment that the claims of the four patents are invalid and/or unenforceable, and not infringed by Broadcom. In December 2003, the parties entered into a settlement agreement which was favorable to the Company, and on January 6, 2004, the Court granted the parties' stipulated request that all claims and counterclaims in the Broadcom action be dismissed with prejudice.

Litigation with Agere and Lucent

On May 23, 2003, we filed in the U.S. District Court for the Northern District of California a patent infringement lawsuit against Agere Systems and Lucent Technologies claiming that Agere has infringed four of our patents and that Lucent was infringing three of our patents. Agere and Lucent filed their answers to our complaint. Agere filed a counterclaim asking for a declaratory judgment that the claims of the four patents are invalid, unenforceable and not infringed by Agere. We filed our reply to Agere's counterclaim in August 2003. This case has been consolidated for claims construction discovery with the litigation against U.S. Robotics Corporation and 3Com Corporation. Claims construction discovery under the Patent Local Rules is underway, and a status conference is set for May 11, 2004. No trial date has been set. We believe we have meritorious claims and defenses. However, because the action is still in its early stages, we are not able to predict the outcome at this time.

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Litigation with 3Com

In March 2003, each of 3Com Corporation and the Company filed a patent infringement lawsuit against the other. The suits are pending in the U.S. District Court for the Northern District of California. Our lawsuit alleges infringement of one of our patents and asks for a declaratory judgment that certain 3Com patents are invalid and not infringed by the Company. 3Com is alleging that our HSP modem products infringed certain 3Com patents and asks for a declaratory judgment that our patent is invalid and not infringed by 3Com. No trial date has been set. The case has been consolidated for claims construction discovery with the litigation against U.S. Robotics Corporation, Agere Systems and Lucent Technologies. Claims construction discovery under the Patent Local Rules is underway, and a status conference is set for May 11, 2004. We believe we have meritorious claims and defenses. However, because the action is still in its early stages, we are not able to predict the outcome at this time.

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Further, in May 2003, the Company filed a complaint against 3Com in the Superior Court of the State of California for the County of Santa Clara under California's Unfair Competition Act. In December 2003, the Company voluntarily dismissed the action without prejudice. On December 15, 2003, 3Com filed an action against the Company seeking a declaratory judgment that 3Com has not violated the California Unfair Competition Act. On January 7, 2004, the parties filed a stipulation dismissing 3Com's declaratory judgment action without prejudice. No related claims with respect to the California Unfair Competition Act are currently pending between the parties.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION -----
31.1	Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

We furnished a report on Form 8-K dated February 5, 2004 announcing our financial results fourth fiscal quarter and its fiscal year ended December 31, 2003. Such report was "furnished" but not "filed" with the SEC.

We filed a report on Form 8-K dated January 2, 2004 announcing our acquisition of MAXRAD, Inc.

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SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

PCTEL, Inc.
A Delaware Corporation
(Registrant)

/s/ MARTIN H. SINGER

Martin H. Singer
Chairman of the Board and
Chief Executive Officer

Date: May 14, 2004