

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2021

OR

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
(State or Other Jurisdiction of
Incorporation or Organization)

**471 Brighton Drive,
Bloomington, IL**
(Address of Principal Executive Office)

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

60108
(Zip Code)

Registrant's Telephone Number, Including Area Code: (630) 372-6800

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	PCTI	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 4, 2021, the registrant had 18,566,700 shares of common stock, \$0.001 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)

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

	March 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 12,796	\$ 5,761
Short-term investment securities	24,805	30,582
Accounts receivable, net of allowances of \$90 and \$113 at March 31, 2021 and December 31, 2020, respectively	14,610	16,601
Inventories, net	9,719	9,984
Prepaid expenses and other assets	1,543	1,685
Total current assets	63,473	64,613
Property and equipment, net	12,056	12,505
Long-term investment securities	2,963	4,640
Goodwill	3,332	3,332
Other noncurrent assets	2,425	2,441
TOTAL ASSETS	\$ 84,249	\$ 87,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 2,297	\$ 4,430
Accrued liabilities	8,045	7,316
Total current liabilities	10,342	11,746
Long-term liabilities	4,262	4,387
Total liabilities	14,604	16,133
Stockholders' equity:		
Common stock, \$0.001 par value, 50,000,000 shares authorized at March 31, 2021 and December 31, 2020, respectively, and 18,518,515 and 18,429,350 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	19	18
Additional paid-in capital	127,174	128,250
Accumulated deficit	(57,550)	(56,888)
Accumulated other comprehensive income	2	18
Total stockholders' equity	69,645	71,398
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 84,249	\$ 87,531

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

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

	Three Months Ended	
	March 31,	
	<u>2021</u>	<u>2020</u>
REVENUES	\$ 17,707	\$ 17,506
COST OF REVENUES	9,369	9,291
GROSS PROFIT	<u>8,338</u>	<u>8,215</u>
OPERATING EXPENSES:		
Research and development	3,194	3,029
Sales and marketing	2,763	3,142
General and administrative	3,076	2,802
Amortization of intangible assets	0	33
Restructuring expenses	0	87
Total operating expenses	<u>9,033</u>	<u>9,093</u>
OPERATING LOSS	(695)	(878)
Other income, net	39	198
LOSS BEFORE INCOME TAXES	(656)	(680)
Expense for income taxes	6	8
NET LOSS	<u>\$ (662)</u>	<u>\$ (688)</u>
Net loss per Share:		
Basic	\$ (0.04)	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.04)
Weighted Average Shares:		
Basic	18,070	18,207
Diluted	18,070	18,207
Cash dividend per share	\$ 0.055	\$ 0.055

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

PCTEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)
(in thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
NET LOSS	\$ (662)	\$ (688)
OTHER COMPREHENSIVE LOSS:		
Foreign currency translation adjustments	(16)	(89)
COMPREHENSIVE LOSS	<u>\$ (678)</u>	<u>\$ (777)</u>

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

PCTEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of PCTEL, Inc.
BALANCE at DECEMBER 31, 2020	\$ 18	\$ 128,250	\$ (56,888)	\$ 18	\$ 71,398
Stock-based compensation expense	1	617	0	0	618
Issuance of shares for stock purchase plans and stock options	0	8	0	0	8
Cancellation of shares for payment of withholding tax	0	(659)	0	0	(659)
Repurchase of common stock	0	(31)	0	0	(31)
Dividends paid (\$0.055 per share)	0	(1,011)	0	0	(1,011)
Net loss	0	0	(662)	0	(662)
Change in cumulative translation adjustment, net	0	0	0	(16)	(16)
BALANCE at MARCH 31, 2021	<u>\$ 19</u>	<u>\$ 127,174</u>	<u>\$ (57,550)</u>	<u>\$ 2</u>	<u>\$ 69,645</u>
BALANCE at DECEMBER 31, 2019	\$ 19	\$ 133,954	\$ (60,305)	\$ (318)	\$ 73,350
Stock-based compensation expense	0	562	0	0	562
Issuance of shares for stock purchase plans and stock options	0	59	0	0	59
Cancellation of shares for payment of withholding tax	0	(1,106)	0	0	(1,106)
Repurchase of common stock	(1)	(1,999)	0	0	(2,000)
Dividends paid (\$0.055 per share)	0	(1,032)	0	0	(1,032)
Net loss	0	0	(688)	0	(688)
Change in cumulative translation adjustment, net	0	0	0	(89)	(89)
BALANCE at MARCH 31, 2020	<u>\$ 18</u>	<u>\$ 130,438</u>	<u>\$ (60,993)</u>	<u>\$ (407)</u>	<u>\$ 69,056</u>

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

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

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating Activities:		
Net Loss	\$ (662)	\$ (688)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	742	748
Intangible asset amortization	0	144
Stock-based compensation	618	562
Loss on disposal of property and equipment	3	7
Restructuring costs	(15)	63
Bad debt provision	(11)	18
Changes in operating assets and liabilities:		
Accounts receivable	1,999	3,432
Inventories	259	760
Prepaid expenses and other assets	215	470
Accounts payable	(2,061)	737
Income taxes payable	6	8
Other accrued liabilities	554	(2,011)
Deferred revenue	7	39
Net cash provided by operating activities	<u>1,654</u>	<u>4,289</u>
Investing Activities:		
Capital expenditures	(354)	(1,516)
Purchases of investments	(5,953)	(9,918)
Redemptions/maturities of short-term investments	13,407	13,866
Net cash provided by in investing activities	<u>7,100</u>	<u>2,432</u>
Financing Activities:		
Proceeds from issuance of common stock	8	59
Payment of withholding tax on stock-based compensation	(659)	(1,106)
Principle payments on finance leases	(16)	(20)
Purchase of common stock from repurchase program	(31)	(2,000)
Cash dividends	(1,011)	(1,032)
Net cash used in financing activities	<u>(1,709)</u>	<u>(4,099)</u>
Net increase in cash and cash equivalents	7,045	2,622
Effect of exchange rate changes on cash	(10)	(54)
Cash and cash equivalents, beginning of period	5,761	7,094
Cash and Cash Equivalents, End of Period	<u><u>\$ 12,796</u></u>	<u><u>\$ 9,662</u></u>

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

PCTEL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands except share and per share data and as otherwise noted)

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) 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 the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal, recurring nature that are 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, 2020 (the “2020 Form 10-K”).

Throughout this Quarterly Report on Form 10-Q, including under Part 1, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we disclose certain measures that the Company has taken in response to the macroeconomic impacts of the novel coronavirus (“COVID-19”). The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company’s business, results of operations and financial condition will depend on future developments that remain highly uncertain at this time.

Nature of Operations

PCTEL, Inc. (the “Company”) was incorporated in California in 1994 and reincorporated in Delaware in 1998. The Company is a leading global provider of wireless technology, including purpose-built Industrial Internet of Things (“IoT”) devices, antenna systems, and test and measurement solutions. The Company solves complex wireless challenges to help organizations stay connected, transform, and grow, and the Company has expertise in radio frequency (“RF”), digital and mechanical engineering. The Company has two businesses (antennas & Industrial IoT devices and test & measurement products) that address three market segments: Enterprise Wireless, Intelligent Transportation, and Industrial IoT.

The Company’s principal executive offices are located at 471 Brighton Drive, Bloomingdale, Illinois 60108. The telephone number at that address is (630) 372-6800 and the website is www.pctel.com. Additional information about the Company can be obtained on the Company’s website; however, the information within, or that can be accessed through, the Company’s website, is not part of this Quarterly Report on Form 10-Q.

Basis of Consolidation

The unaudited interim condensed consolidated financial statements of the Company include the condensed consolidated balance sheets for the period ended March 31, 2021 and December 31, 2020, and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive loss, the condensed consolidated statements of stockholders’ equity and condensed consolidated statements of cash flows for the three months ended March 31, 2021 and 2020, respectively. The interim condensed consolidated financial statements 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 condensed consolidated balance sheet as of December 31, 2020 is derived from the audited financial statements as of December 31, 2020.

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 U.S. GAAP have been condensed or omitted. The significant accounting policies followed by the Company are set forth in the 2020 Form 10-K. There were no material changes in the Company’s significant accounting policies during the three months ended March 31, 2021. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2020 Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the 2020 Form 10-K. The results of operations for the period ended March 31, 2021 may not be indicative of the results for the period ending December 31, 2021.

Foreign Operations

Cross-border transactions, both with external parties and in our internal operations, result in exposure to foreign exchange rate fluctuations. We are exposed to currency risk with the Chinese Yuan due to our operations in China and with other foreign currencies related to employees outside the U.S. Fluctuations could have an adverse effect on our results of operations and cash flows. We manage certain operating activities at the local level with revenues, costs, assets, and liabilities generally being denominated in local currencies. However, our results of operations and assets and liabilities are reported in U.S. dollars and thus will fluctuate with

changes in exchange rates between such local currencies and the U.S. dollar. Gains and losses resulting from transactions originally in foreign currencies and then translated into U.S. dollars are included in the condensed consolidated statements of operations. For the three months ended March 31, 2021, approximately 2% of revenues and 14% of expenses were transacted in foreign currencies as compared to 3% and 17% for the three months ended March 31, 2020. Net foreign exchange gains resulting from foreign currency transactions included in other income, net was \$8 and \$37 for the three months ended March 31, 2021 and 2020, respectively.

Recent Accounting Pronouncement

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”), Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-14). This new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. The changes are effective for smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (“Topic 848”): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. Topic 848 is effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating the impact of Topic 848 on the consolidated financial statements.

2. Fair Value of Financial Instruments

The Company follows accounting guidance for fair value measurements and disclosures, 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. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

Level 1: inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

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

Cash equivalents are measured at fair value and investments are recognized at amortized cost in the Company’s financial statements. Accounts receivable is a financial asset with a carrying value that approximates 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.

3. Income per Share

The following table is the computation of basic and diluted income per share:

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
Basic Income Per Share computation:		
Numerator:		
Net loss	\$ (662)	\$ (688)
Denominator:		
Weighted shares outstanding - basic	18,069,836	18,207,165
Net income per common share - basic		
Net loss	\$ (0.04)	\$ (0.04)
Diluted Income Per Share computation:		
Denominator:		
Weighted shares outstanding - basic	18,069,836	18,207,165
Restricted shares subject to vesting	0	0
Common stock option grants	0	0
Weighted shares outstanding - diluted	18,069,836	18,207,165
Net income per common share - diluted		
Net loss	\$ (0.04)	\$ (0.04)

4. Cash, Cash Equivalents and Investments

The Company's cash, cash equivalents, and investments consisted of the following:

	<u>March 31,</u>	<u>December 31,</u>
	<u>2021</u>	<u>2020</u>
Cash	\$ 3,761	\$ 4,740
Cash equivalents	9,035	1,021
Short-term investments	24,805	30,582
Long-term investments	2,963	4,640
Total	<u>\$ 40,564</u>	<u>\$ 40,983</u>

Cash and Cash Equivalents

At March 31, 2021 and December 31, 2020, cash and cash equivalents included bank balances and investments with original maturities of less than 90 days. At March 31, 2021 and December 31, 2020, the Company's cash equivalents were invested in highly liquid AAA rated 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 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 Company's cash in U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of \$250.

The Company had \$2.1 million of cash and cash equivalents in bank accounts in China at March 31, 2021 and December 31, 2020. The Company's cash in its China bank accounts is not insured. At March 31, 2021, \$1.0 million of the cash and cash equivalents in China was invested in a 90-day deposit account classified as cash equivalents and \$1.1 million was in cash accounts. As of March 31, 2021, the Company has no intentions of repatriating the cash in its foreign bank accounts in China. If the Company decides to repatriate the cash in these China bank accounts, it may have trouble doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds.

Investments

At March 31, 2021 and December 31, 2020, the Company's investments consisted of corporate bonds with ratings at the purchase date of A or higher and certificates of deposit. All the investments at March 31, 2021 and December 31, 2020 were classified as held-to-maturity. The bonds and certificates of deposit classified as short-term investments have original maturities greater than 90 days and mature within one year and the bonds and certificates of deposit classified as long-term investments have maturities greater than one year but less than two years. The Company's bond investments are recorded at the purchase price and carried at amortized cost.

Effective January 1, 2020, the Company adopted ASU 2016-13. This ASU replaces the incurred loss impairment model with an expected loss impairment model for financial instruments, including short-term investments. The amendment requires entities to consider forward-looking information to estimate expected credit losses. Under ASU 2016-13, the Company classifies its held-to-maturity investment portfolio by the investment type and further classifies the corporate bonds by the bond ratings. For estimating potential credit losses, the Company considers the historical loss data, the bond ratings, as well as and current and future economic conditions.

Cash equivalents and investments were as follows at March 31, 2021 and December 31, 2020:

	March 31, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents:						
Certificates of deposit	0	0	0	300	0	300
Money market funds	9,035	0	9,035	721	0	721
Total Cash Equivalents	\$ 9,035	\$ 0	\$ 9,035	\$ 1,021	\$ 0	\$ 1,021
Short-Term Investments:						
Corporate bonds	\$ 0	\$ 20,947	\$ 20,947	\$ 0	\$ 26,318	\$ 26,318
Certificates of deposit	3,858	0	3,858	4,264	0	4,264
Total Short-Term Investments	\$ 3,858	\$ 20,947	\$ 24,805	\$ 4,264	\$ 26,318	\$ 30,582
Long-Term Investments:						
Corporate bonds	\$ 0	\$ 2,705	\$ 2,705	\$ 0	\$ 4,382	\$ 4,382
Certificates of deposit	258	0	258	258	0	258
Total Long-Term Investments	\$ 258	\$ 2,705	\$ 2,963	\$ 258	\$ 4,382	\$ 4,640
Cash equivalents and Investments - book value	\$ 13,151	\$ 23,652	\$ 36,803	\$ 5,543	\$ 30,700	\$ 36,243
Unrealized gains (losses)	\$ 1	\$ (13)	\$ (12)	\$ (1)	\$ (7)	\$ (8)
Cash equivalents and Investments - fair value	\$ 13,152	\$ 23,639	\$ 36,791	\$ 5,542	\$ 30,693	\$ 36,235

The Company categorizes its financial instruments within a fair value hierarchy according to accounting guidance for fair value. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 2. For the Level 2 investments, the Company uses quoted prices of similar assets in active markets. The fair values in the table above reflect net realizable losses of \$12 at March 31, 2021, and net unrealized losses of \$8 at December 31, 2020.

5. Goodwill and Intangible Assets

Goodwill

There were no changes to the goodwill valued at \$3.3 million during the three months ended March 31, 2021. The Company performs an annual impairment test of goodwill as of the end of the first month of the fourth fiscal quarter (October 31), or at an interim date if an event occurs or if circumstances change that would indicate that an impairment loss may have been incurred. In performing the annual impairment test, the Company may consider qualitative factors that would indicate possible impairment. A quantitative fair value assessment is also performed at the reporting unit level. If the fair value exceeds the carrying value, then goodwill is not impaired, and no further testing is performed. If the carrying value exceeds the fair value, the implied fair value of goodwill is then compared against the carrying value of goodwill to determine the amount of impairment. In addition to the annual impairment test, the Company is required to regularly assess whether a triggering event has occurred which would require interim impairment testing. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its impact on each of the reporting units. Further, the Company assessed the current market capitalization, forecasts and the amount of headroom in the 2020 impairment test. There were no triggering events during the three months ended March 31, 2021 and March 31, 2020. The Company will continue to monitor goodwill for impairment going forward.

Intangible Assets

The Company amortized intangible assets with finite lives on a straight-line basis over the estimated useful lives, which ranged from one to six years. The Company's intangible assets were fully amortized as of February 2020. The summary of other intangible assets, net is as follows:

	March 31, 2021			December 31, 2020		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	\$ 16,880	\$ 16,880	\$ 0	\$ 16,880	\$ 16,880	\$ 0
Patents and technology	9,644	9,644	0	9,644	9,644	0
Trademarks and trade names	972	972	0	972	972	0
Total	\$ 27,496	\$ 27,496	\$ 0	\$ 27,496	\$ 27,496	\$ 0

The assigned lives and weighted average amortization periods by intangible asset category are summarized below:

<u>Intangible Assets</u>	<u>Assigned Life</u>	<u>Weighted Average Amortization Period</u>
Customer contracts and relationships	5 years	5.0
Patents and technology	5 to 6 years	5.1
Trademarks and trade names	5 to 6 years	5.6
Other	1 to 6 years	3.0

6. Balance Sheet Information

Accounts Receivable

Accounts receivable are recorded at invoiced amounts with standard net terms that range between 30 and 90 days. The Company extends credit to its customers based on an evaluation of a customer's financial condition and collateral is generally not required. The Company records allowances for credit losses and credit allowances that reduce the value of accounts receivable to fair value.

The allowances for accounts receivable consisted of the following:

	March 31, 2021	December 31, 2020
Credit loss provision	\$ 55	\$ 66
Credit allowances	35	47
Total allowances	\$ 90	\$ 113

Effective January 1, 2020, the Company adopted ASU 2016-13. This ASU replaces the incurred loss impairment model with an expected loss impairment model for financial instruments, including accounts receivable. The amendment requires entities to consider forward-looking information to estimate expected credit losses. The Company did not record an adjustment upon adoption of ASU 2016-13.

The Company is exposed to credit losses primarily through the sale of products. The Company's expected loss methodology for accounts receivable is developed using historical collection experience, current and future economic market conditions, and a review of the current status of customers' trade accounts receivable. Due to the short-term nature of accounts receivable, the estimate of amount of accounts receivable that may not be collected is based on aging of the account receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. The Company also considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and determined that the estimate of credit losses was not significantly impacted. The Company's allowance for credit losses was \$0.1 million at March 31, 2021 and at December 31, 2020.

The following table summarizes the allowance for credit losses activity during the three months ended March 31, 2021:

Balance at December 31, 2020	\$	66
Current period benefit for credit losses		(11)
Balance at March 31, 2021	\$	55

Inventories

Inventories are stated at the lower of cost or net realizable value and include material, labor and overhead costs using the first-in, first-out method of costing. Inventories as of March 31, 2021 and December 31, 2020 were composed of raw materials, work-in-process and finished goods. The Company had consigned inventory with customers of \$0.2 million and \$0.3 million at March 31, 2021 and December 31, 2020, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or net realizable value, including allowances for excess and obsolete inventory. Reserves for excess inventory are calculated based on an estimate of inventory in excess of normal and planned usage. Obsolete reserves are based on the identification of inventory where the carrying value is above net realizable value. The allowance for inventory losses was \$3.7 million at March 31, 2021 and at December 31, 2020.

Inventories, net consisted of the following:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Raw materials	\$ 4,965	\$ 5,315
Work-in-process	731	883
Finished goods	4,023	3,786
Inventories, net	<u>\$ 9,719</u>	<u>\$ 9,984</u>

Prepaid Expenses and Other 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 and software licenses over three to five years, office equipment, manufacturing and test equipment, and motor vehicles over five years, furniture and fixtures over seven years, and buildings over 30 years. Leasehold improvements are amortized over the shorter of the corresponding lease term or useful life. Depreciation expense and gains and losses on the disposal of property and equipment are included in cost of sales and operating expenses in the condensed consolidated statements of operations. Maintenance and repairs are expensed as incurred.

Property and equipment consisted of the following:

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Building	\$ 6,868	\$ 6,868
Computers and office equipment	10,240	10,039
Manufacturing and test equipment	15,429	15,394
Furniture and fixtures	1,437	1,437
Leasehold improvements	2,969	2,973
Motor vehicles	20	20
Total property and equipment	<u>36,963</u>	<u>36,731</u>
Less: Accumulated depreciation and amortization	(26,677)	(25,996)
Land	1,770	1,770
Property and equipment, net	<u>\$ 12,056</u>	<u>\$ 12,505</u>

Depreciation and amortization expense were approximately \$0.7 million for each of the three months ended March 31, 2021 and 2020. Amortization for finance leases is included in depreciation and amortization expense. See Note 10 for information related to finance leases.

Liabilities

Accrued liabilities consisted of the following:

	March 31, 2021	December 31, 2020
Inventory receipts	\$ 2,954	\$ 3,049
Paid time off	1,179	1,028
Payroll and other employee benefits	1,139	1,083
Professional fees and contractors	543	316
Employee stock purchase plan	442	224
Operating leases	349	269
Warranties	295	285
Deferred revenues	249	242
Real estate taxes	194	155
Income and sales taxes	183	185
Customer refunds for estimated returns	146	146
Finance leases	69	68
Restructuring	0	15
Other	303	251
Total	<u>\$ 8,045</u>	<u>\$ 7,316</u>

Long-term liabilities consisted of the following:

	March 31, 2021	December 31, 2020
Operating leases	\$ 3,813	\$ 3,949
Deferred payroll taxes	243	243
Finance leases	129	96
Deferred revenue	63	76
Other	14	23
Total	<u>\$ 4,262</u>	<u>\$ 4,387</u>

7. Stock-Based Compensation

The condensed consolidated statements of operations include \$0.6 million of stock compensation expense for each of the three months ended March 31, 2021 and 2020. The Company accounts for forfeitures as they occur. The Company did not capitalize any stock compensation expense during the three months ended March 31, 2021 and 2020.

The stock-based compensation expense by type is as follows:

	Three Months Ended March 31,	
	2021	2020
Service-based awards	\$ 455	\$ 422
Performance-based awards (short-term incentive plan)	58	0
Performance-based awards (long-term incentive plan)	39	78
Employee stock purchase plan	66	62
Total	<u>\$ 618</u>	<u>\$ 562</u>

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

	Three Months Ended March 31,	
	2021	2020
Cost of revenues	\$ 69	\$ 72
Research and development	142	137
Sales and marketing	160	150
General and administrative	247	203
Total	\$ 618	\$ 562

The following table presents a summary of the remaining unrecognized share-based compensation expense related to outstanding share-based awards as of March 31, 2021:

Award Type	Remaining Unrecognized Compensation Expense	Weighted Average Life (Years)
Service-based awards	\$ 2,372	1.9
Performance-based awards	\$ 1,905	2.6

Service-Based Awards

Restricted Stock

The Company grants service-based stock awards to employees under its long-term incentive plan, the PCTEL, Inc. 2019 Stock Incentive Plan (“LTIP”). For the annual awards granted to executives and key managers in the three months ended March 31, 2021 and 2020, respectively, the awards were comprised one-third of service-based restricted awards and two-thirds of performance-based awards. When service-based restricted stock is granted, the Company records deferred stock compensation within additional paid-in capital, representing the fair value of the common stock on the date the restricted shares are granted. The Company records stock compensation expense on a straight-line basis over the vesting period of the applicable service-based restricted shares.

The following table summarizes service-based restricted stock activity for the three months ended March 31, 2021:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Awards - December 31, 2020	434,838	\$ 6.91
Shares awarded	170,158	8.04
Shares vested	(225,484)	6.86
Shares cancelled	(2,768)	7.65
Unvested Restricted Stock Awards - March 31, 2021	376,744	\$ 7.45

In March 2021, the Company issued to employees 170,158 service-based restricted stock awards under the LTIP that vest in three substantially equal annual increments commencing in 2022. In February 2020, the Company issued to employees 153,694 service-based restricted stock awards under the LTIP that vest in three substantially equal annual increments commencing in 2021. The intrinsic value of service-based restricted shares that vested during each of the three months ended March 31, 2021 and 2020 was \$1.9 million.

Restricted Stock Units

The Company grants service-based restricted stock units as employee incentives. Restricted stock units are primarily granted to foreign employees for long-term incentive purposes. Employee restricted stock units are service-based awards and are amortized over the vesting period. At the vesting date, these units are converted to shares of common stock. The Company records expense on a straight-line basis for restricted stock units.

The following table summarizes the restricted stock unit activity during the three months ended March 31, 2021:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Units - December 31, 2020	9,083	\$ 7.02
Units awarded	2,800	7.80
Units vested/Shares awarded	(3,098)	7.31
Unvested Restricted Stock Units - March 31, 2021	<u>8,785</u>	<u>\$ 7.17</u>

The intrinsic value of service-based restricted stock units that vested and were issued as shares during the three months ended March 31, 2021 and 2020 was \$25 and \$44, respectively.

Stock Options

The Company may grant employees stock options to purchase common stock. The Company issues stock options with exercise prices no less than the fair value of the Company's stock on the grant date. Employee stock options are subject to installment vesting typically over a period of not less than three years. Stock options may be exercised at any time prior to their expiration date or within 180 days of termination of employment, or such shorter time as may be provided in the related stock option agreement. The stock options outstanding at March 31, 2021 have a seven-year life.

The following tables summarize the stock option activity for the three months ended March 31, 2021:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2020	16,250	\$ 6.54
Options exercised	(6,000)	5.48
Options cancelled/expired	(4,500)	8.12
Outstanding at March 31, 2021	<u>5,750</u>	<u>\$ 6.41</u>
Exercisable at March 31, 2021	<u>5,288</u>	<u>\$ 6.36</u>

During the three months ended March 31, 2021, the Company received proceeds of \$8 and issued 1,420 shares for the exercise of 6,000 options. The intrinsic value of the options exercised was \$53. The Company did not grant stock options during the three months ended March 31, 2021 or 2020.

The following table summarizes information about stock options outstanding under all stock option plans:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted- Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 5.06 - \$ 7.31	5,750	2.27	\$6.41	5,288	\$6.36

The weighted average contractual life and intrinsic value of options outstanding and options exercisable at March 31, 2021, was the following:

	Weighted Average Contractual Life (years)	Intrinsic Value
Options Outstanding	2.27	\$ 4
Options Exercisable	2.13	\$ 4

The intrinsic value is based on the share price of \$6.95 at March 31, 2021.

For outstanding stock options, the Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Because the Company's 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 the employee stock options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life.

The dividend yield rate is calculated by dividing the Company's annual dividend by the closing price on the grant date. The risk-free interest rate is based on the U.S. Treasury yields with a remaining term that approximates the expected life of the options granted. The expected volatility is based on a five-year historical period of the Company's stock price. The expected life for options granted is based on historical data of employee exercise performance. The Company records expense based on the graded vesting method.

Performance-Based Equity Awards

Short-Term Incentive Plan

Incentive compensation earned by executives and key managers under the Company's 2021 Short-Term Incentive Plan ("STIP") will be settled 50% in cash and 50% in shares of the Company's stock as was the case with the 2020 STIP. Under both the 2021 STIP and 2020 STIP, payouts could be earned based on annual revenue and adjusted EBITDA targets. No shares were earned under the 2020 STIP because the Company did not meet its revenue or EBITDA targets.

Long-Term Incentive Plan

The Company grants performance-based awards to executives and key managers to encourage sustainable growth, consistent earnings, and management retention. Based on the fair value of the shares on the grant date, the Company records stock compensation expense over the performance period based on the estimated achievement of the award.

The following table summarizes the performance award activity:

	<u>Awards at Target</u>		<u>Weighted Average Fair Value</u>
Unvested Performance Awards - December 31, 2020	316,726	\$	6.84
Awards granted	187,864		8.15
Unvested Performance Awards - March 31, 2021	<u>504,590</u>	<u>\$</u>	<u>7.33</u>

The Company granted performance awards under its long-term incentive plan to executives and key managers in February 2021 ("2021 LTIP"). The performance period for the 2021 LTIP is from January 1, 2021 through December 31, 2023. At target, the total fair market value of the award was \$1.5 million based on the average share price of \$8.15 on the grant date. On the award date, the aggregate number of shares that could be earned at target was 187,864 and the maximum number of aggregate shares that could be earned was 328,762.

Under the 2021 LTIP and similar plans from 2019 and 2020, shares of the Company's stock can be earned based on achievement of a three-year revenue growth target with a penalty if a certain adjusted EBITDA level is not maintained. If the Company achieves less than the target growth over the performance period, the participant will receive fewer shares than the target award, determined on a straight-line basis. If the Company achieves greater than the target growth, the participant will receive more shares than the target award on an accelerated basis. Participants are required to be in service at the determination date of the award following the end of the performance period in order to receive the award. Shares earned will be fully vested shares. The Company records stock compensation expense over the performance period based on the Company's estimate of the aggregate number of shares that will be earned under the incentive plan.

The following table summarizes the active performance-based long-term incentive plans at March 31, 2021:

LTIP award	Share Price on Grant Date	Number of Shares That Could Be Earned:		Performance Period
		Target	Maximum	
2019 LTIP	\$ 5.27	171,437	295,325	January 1, 2019 through December 31, 2021
2020 LTIP	\$ 8.70	145,289	254,256	January 1, 2020 through December 31, 2022
2021 LTIP	\$ 8.15	<u>187,864</u>	<u>328,762</u>	January 1, 2021 through December 31, 2023
		504,590	878,343	

Employee Stock Purchase Plan (“ESPP”)

The ESPP enables eligible employees to purchase common stock at the lower of 85% of the fair market value of the common stock on the first or last day of each offering period. Each offering period is approximately six months.

Based on the 15% discount and the fair value of the option feature of the ESPP, it is considered compensatory. Compensation expense is calculated using the fair value of the employees’ purchase rights under the Black-Scholes model.

The Company calculated the fair value of each employee stock purchase grant on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	Employee Stock Purchase Plan	
	2021	2020
Dividend yield	3.1%	4.1%
Risk-free interest rate	0.1%	0.1%
Expected volatility	48%	44%
Expected life (in years)	0.5	0.5

The dividend yield rate was calculated by dividing the Company’s annual dividend by the closing price on the grant date. The risk-free interest rate was based on the U.S. Treasury yields with a remaining term that approximates the expected life of the options granted. The volatility was based on a five-year historical period of the Company’s stock price. The expected life was based on the offering period.

Board of Director Equity Awards

The Company grants equity awards to members of its Board of Directors as an annual retainer and for committee service. These awards are shares of the Company’s stock that vest upon issuance or, in some cases, one year after issuance. In addition, new directors receive a one-time grant that vests over three years.

The following table summarizes the director awards activity:

	Shares	Weighted Average Fair Value
Outstanding - December 31, 2020	2,416	\$ 6.90
Shares vested	(2,416)	6.90
Outstanding - March 31, 2021	<u>0</u>	<u>\$ 0</u>

The intrinsic value of service-based restricted shares for directors that vested during the three months ended March 31, 2021 was \$20.

Employee Withholding Taxes on Stock Awards

For ease in administering the issuance of stock awards, the Company holds back shares of vested restricted stock awards, stock option exercises and short-term and long-term incentive plan stock awards for the value of the statutory withholding taxes. For everyone receiving a share award, the Company redeems the shares it computes as the value for the withholding tax and remits this amount to the appropriate tax authority. For withholding taxes related to stock awards, the Company paid \$0.7 million and \$1.1 million during the three months ended March 31, 2021 and 2020, respectively.

Stock Repurchases

On November 6, 2019, the Board of Directors approved a share repurchase program, which was reauthorized on March 10, 2020 pursuant to which the Company was authorized to repurchase up to \$7.0 million of its common stock through the end of 2020. The Company spent \$2.0 million to repurchase 375,046 shares at an average price of \$5.36 during the three months ended March 31, 2020. Due to uncertainties related to the COVID-19 pandemic and to protect the Company’s cash position, on April 1, 2020 the Board of Directors approved the termination of the stock repurchase program. On November 4, 2020, the Board of Directors approved a new, \$5.0 million share repurchase program. The Company spent \$1.8 million to repurchase 288,573 shares at an average price of \$6.30 during the three months ended December 31, 2020. During the three months ended March 31, 2021 the Company repurchased 4,700 shares at an average price of \$6.50. The Company retired all repurchased shares.

Authorized Shares

On May 29, 2020, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation (i) changing the Company's name from "PC-Tel, Inc." to "PCTEL, Inc." and (ii) decreasing the number of authorized shares of common stock from 100,000,000 shares to 50,000,000 shares.

8. Benefit Plans

Employee Benefit Plans

The Company's 401(k) plan covers all U.S. employees beginning the first day of the month following the first month of their employment. Under this plan, employees may elect to contribute up to 15% of their current compensation to the 401(k) plan up to the statutorily prescribed annual limit. The Company matches employee contributions up to 4% and may also make discretionary contributions to the 401(k) plan. The Company also contributes to various retirement plans for foreign employees.

The Company's contributions to retirement plans during the three months ended March 31, 2021 and 2020, respectively, were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2021</u>	<u>2020</u>
PCTEL, Inc. 401(k) profit sharing plan - US employees	\$ 172	\$ 238
Defined contribution plans - foreign employees	87	23
Total	\$ 259	\$ 261

Contributions for foreign employees was higher for the three months ended March 31, 2021 because employer contributions to Chinese government sponsored retirement programs were not required from February 2020 through December 2020.

9. Commitments and Contingencies

China Restructuring

On August 7, 2019 the Company's Board of Directors approved a transition plan for the Company's China manufacturing operations. As part of the plan, the Company is transitioning high-volume manufacturing from its Tianjin, China facility to contract manufacturers in China and elsewhere in order to reduce fixed costs in China, optimize the cost structure of the antenna product line, and create flexibility in antenna manufacturing due to the uncertainty of the lease of the current manufacturing premises, as described below. For the year ended December 31, 2020, the Company incurred restructuring expenses of \$0.1 million for employee severance related to the separation of 12 employees and for the year ended December 31, 2019, the Company incurred restructuring expenses of \$0.5 million for employee severance and related benefits related to the separation of 84 employees. Severance costs were paid from the Company's cash in its China bank accounts.

On October 8, 2020, the lease of the premises on which the Company's China manufacturing operations are conducted expired and the renewal is pending and uncertain. The Company has been notified that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the Company's leased premises is located and, accordingly, leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The Company has not received an indication of the likelihood of approval of its lease extension. As a result of the uncertainty regarding the Tianjin Lease (as defined in Note 10) renewal, the Company is refining its transition plan for the manufacturing activities conducted on the leased premises. As part of the refined transition plan, the Company will retain a group of employees in Tianjin, China, but will reduce additional headcount in Tianjin and incur additional restructuring charges for severance and other non-cash costs. The Company expects additional severance of between \$0.8 million and \$1.0 million in 2021. The Company expects the transition to be substantially completed by the end of the 2021 fiscal year.

The following table summarizes the restructuring activity during the three months ended March 31, 2021 and the status of the reserves at March 31, 2021:

	<u>Lease Termination</u>	
Balance at December 31, 2020	\$	15
Payments made	\$	(15)
Balance at March 31, 2021	\$	0

The restructuring liability is recorded in accrued liabilities on the condensed consolidated balance sheet at March 31, 2021 and December 31, 2020.

Warranty Reserve and Sales Returns

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company accrues for product returns based on historical sales and return trends. The refund liability related to estimated sales returns was \$0.1 million at March 31, 2021 and December 31, 2020, respectively, and is included within accrued liabilities on the accompanying condensed consolidated balance sheets.

The Company offers repair and replacement warranties of up to five years for certain antenna products and test & measurement products. The Company's warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was \$0.3 million at March 31, 2021 and \$0.3 million at March 31, 2020, respectively, and is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

The following table summarizes the warranty activity during the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	2020
Beginning balance	\$ 285	\$ 444
Provisions for warranties	\$ 15	(18)
Consumption of reserves	\$ (5)	(142)
Ending balance	<u>\$ 295</u>	<u>\$ 284</u>

10. Leases

The Company has operating leases for facilities and finance leases for office equipment. Leases with an initial term of 12 months or less are not recorded in the balance sheet. The Company determines if an arrangement is a lease at inception of a contract.

Right of Use ("ROU") assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term is deemed to include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU assets also include any advance lease payments made and exclude lease incentives. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments on a collateralized basis. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

The Company's lease cost for the three months ended March 31, 2021 and 2020, respectively, included the following components:

	Three Months Ended March 31	
	2021	2020
Operating lease costs	\$ 97	\$ 245
Short-term lease costs	41	13
Variable lease costs	2	2
Amortization of finance lease assets	14	20
Interest on finance lease liabilities	2	2
Total lease cost	<u>\$ 156</u>	<u>\$ 282</u>

The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases recorded on the balance sheet as of March 31, 2021:

Year	Operating Leases	Finance Leases
2021	\$ 373	\$ 57
2022	558	60
2023	569	44
2024	581	33
2025	501	15
Thereafter	2,674	5
Total minimum payments required	5,256	214
Less: amount representing interest	1,094	16
Present value of net minimum lease payments	4,162	198
Less: current maturities of lease obligations	(349)	(69)
Long-term lease obligations	\$ 3,813	\$ 129

The weighted average remaining lease terms and discount rates for all the Company's operating and finance leases were as follows as of March 31, 2021:

	March 31, 2021
Weighted-average remaining lease term - finance leases	3.6 years
Weighted-average remaining lease term - operating leases	9.5 years
Weighted-average discount rate - finance leases	4.0%
Weighted-average discount rate - operating leases	5.0%

The table below presents supplemental cash flow information related to leases during the three months ended March 31, 2021 and 2020, respectively:

	Three Months Ended March 31,	
	2021	2020
Cash paid for (received) amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 100	\$ 86
Operating cash flows from tenant improvement incentives from operating leases	\$ 0	\$ (977)
Operating cash flows for finance leases	\$ 2	\$ 2
Financing cash flows for finance leases	\$ 16	\$ 20

The following table summarizes the classification of ROU assets and lease liabilities as of March 31, 2021 and December 31, 2020:

Leases	Consolidated Balance Sheet Classification	March 31, 2021	December 31, 2020
Assets:			
Operating right-of-use assets	Other noncurrent assets	\$ 2,227	\$ 2,272
Finance right-of-use assets	Other noncurrent assets	192	157
Total leased assets		\$ 2,419	\$ 2,429
Liabilities:			
Current			
Operating lease liabilities	Accrued liabilities	\$ 349	\$ 269
Finance lease liabilities	Accrued liabilities	69	68
Noncurrent			
Operating lease liabilities	Long-term liabilities	3,813	3,949
Finance lease liabilities	Long-term liabilities	129	96
Total lease liabilities		\$ 4,360	\$ 4,382

On March 5, 2020, PCTEL (Tianjin) Wireless Telecommunications Products, Co. Ltd., a wholly-owned subsidiary of the Company (“PCTEL Tianjin”), entered into a letter agreement with Wang Zhuang Village Committee of Tianjin, China (the “Letter Agreement”) specifying the terms for extension of the lease of the premises on which PCTEL Tianjin currently conducts its manufacturing activities in Tianjin, China (the “Tianjin Lease”) to October 2022. The Letter Agreement did not, however, effect the lease extension. The Tianjin Lease expired on October 8, 2020 without extension. On October 16, 2020, the Wang Zhuang Village Committee issued a notice informing PCTEL Tianjin that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the leased premises is located, and accordingly leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The letter indicates that if the Tianjin Lease extension is subsequently approved, the rent for the period from October 9, 2020 to the date of the Tianjin Lease extension (the “Intervening Period”) will then be due and payable. If the Tianjin Lease extension is not approved, PCTEL Tianjin will need to vacate the premises and no rent will be due for the Intervening Period. PCTEL Tianjin has not received an indication of the likelihood of approval of the Tianjin Lease extension, the length of the Intervening Period or the notice period for vacating the leased premises; provided, however, based upon past practices and verbal assurances, the Company believes that PCTEL Tianjin will have not less than 30 days to vacate the leased premises if the Lease Extension is not approved.

11. Income Taxes

The Company recorded income tax expense of \$6 and \$8 for the three months ended March 31, 2021 and 2020, respectively. The expense recorded for the three months ended March 31, 2021 and 2020 was lower than the statutory rate of 21% because the Company has a full valuation allowance on its deferred tax assets. The Company’s valuation allowance is due to the uncertainty regarding the utilization of the deferred tax assets.

The Company had deferred tax assets net of deferred tax liabilities of \$12.9 million at March 31, 2021 and at December 31, 2020. The deferred tax assets consisted of domestic deferred tax assets of \$12.1 million and foreign deferred tax assets of \$0.8 million. The Company’s gross deferred tax assets consist of federal and state net operating losses (“NOLs”), credits, and timing differences. The Company’s federal NOLs generated in 2018 and future periods will not expire, and the Company’s NOLs and credits generated as of December 31, 2017 have a finite life primarily based on the 20-year carry forward of federal net operating losses. The timing differences have a ratable reversal pattern over 12 years. On a regular basis, the Company evaluates the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. The Company considers multiple factors in its evaluation of the need for a valuation allowance. The Company’s full valuation allowance against its deferred tax assets was \$12.9 million at March 31, 2021. The Company generated book and tax income during 2020 and believes its financial outlook remains positive; however, the COVID-19 pandemic has created a high level of uncertainty. Because of difficulties with forecasting financial results historically, and due to the uncertainties associated with the COVID-19 pandemic, the Company maintained a full valuation allowance on its deferred tax assets at December 31, 2020 and March 31, 2021. The analysis that the Company prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance.

The Company files a consolidated federal income tax return, income tax returns with various states, and foreign income tax returns in various foreign jurisdictions. The Company’s U.S. federal tax returns remain subject to examination for 2017 and subsequent periods. The Company’s U.S. state tax returns remain subject to examination for 2015 and subsequent periods. The Company’s foreign tax returns remain subject to examination for 2011 and subsequent periods. The Company’s gross unrecognized tax benefit was \$0.8 million at March 31, 2021 and December 31, 2020.

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security Act” (CARES Act) was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Under the CARES Act, the Company is deferring the employer portion of social security taxes and will apply for a refund of its Alternative Minimum Tax credit. As of March 31, 2021, the Company has deferred \$0.5 million of payroll taxes. The payroll taxes will be deferred until the due dates of December 31, 2021 and December 31, 2022. The Company records a deferred tax asset for the payroll tax liability due by December 31, 2022 that is not deductible in 2021 for income tax purposes.

12. Product Line and Geographic Information

Product Line Information:

The following tables are the product line revenues and gross profits for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31, 2021			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 11,723	\$ 6,205	\$ (221)	\$ 17,707
Gross Profit	\$ 3,747	\$ 4,588	\$ 3	\$ 8,338
Gross Profit %	32.0%	73.9%	NA	47.1%

	Three Months Ended March 31, 2020			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 11,460	\$ 6,083	\$ (37)	\$ 17,506
Gross Profit	\$ 3,918	\$ 4,297	\$ 0	\$ 8,215
Gross Profit %	34.2%	70.6%	NA	46.9%

Geographic Information:

The Company's revenue from customers by geographic location, as a percent of total revenues for the three months ended March 31, 2021 and 2020, is as follows:

Region	Three Months Ended March 31,	
	2021	2020
Europe, Middle East & Africa	23%	17%
Asia Pacific	8%	8%
Other Americas	4%	3%
Total Foreign sales	35%	28%

13. Revenue from Contracts with Customers

Under Topic 606, a contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance, and specified payment terms, and for which collectability is probable. Once the Company has entered into a contract, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized as control of promised goods or services transfers to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The amount of revenue recognized takes into account variable consideration, such as returns and volume rebates. A majority of the Company's revenue is short cycle in nature with shipments within one year from order. The Company's payment terms generally range between 30 to 90 days.

All of the Company's revenue relates to contracts with customers. The Company's accounting contracts are from purchase orders or purchase orders combined with purchase agreements. The majority of the Company's revenue is recognized on a "point-in-time" basis and a nominal amount of revenue is recognized "over time". For the sale of antenna products and test & measurement products, the Company satisfies its performance obligations generally at the time of shipment or upon delivery based on the contractual terms with its customers. For products shipped on consignment, the Company recognizes revenue upon delivery from the consignment location. For its test & measurement software tools, the Company has a performance obligation to provide software maintenance and support for one year. The Company recognizes revenues for the maintenance and support over this period.

The Company considers shipping and handling performed by the Company as fulfillment activities. Amounts billed for shipping and handling are included in revenues, while costs incurred for shipping and handling are included in cost of revenues. The Company excludes taxes from the transaction price. Cost of contracts include sales commissions. The Company expenses the cost of contracts when incurred because the amortization period is one year or less.

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company estimates product returns based on historical sales and return trends and records a corresponding refund liability. The refund liability was \$0.1 million at March 31, 2021 and December 31, 2020 and is included within accrued liabilities in the accompanying condensed consolidated balance sheets. The Company records an asset based on historical experience for the amount of product it expects to return to inventory as a result of customer returns, which is recorded in inventories in the accompanying condensed consolidated balance sheets. The product return asset was \$0.1 million at March 31, 2021 and December 31, 2020.

There were no contract assets at March 31, 2021 or December 31, 2020. The Company records contract liabilities for deferred revenue and customer prepayments. Contract liabilities are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets. The contract liability was \$0.3 million and \$0.4 million at March 31, 2021 and December 31, 2020, respectively. The Company recognized revenue of \$0.2 million and \$0.1 million during the three months ended March 31, 2021 and 2020, respectively, related to contract liabilities that existed at the beginning of the period.

14. Subsequent Events

The Company evaluates subsequent events occurring between the most recent balance sheet date and the date that the financial statements are available to be issued in order to determine whether the subsequent events are to be recorded and/or disclosed in the Company's financial statements and footnotes. The financial statements are considered to be available to be issued at the time that they are filed with the SEC. Other than the events described below, there were no other subsequent events or transactions that required recognition or disclosure in the unaudited interim condensed consolidated financial statements.

Smarteq Acquisition

On April 30, 2021, the Company acquired all the outstanding stock of Smarteq Wireless Aktiebolag, a Swedish company based in Kista, Sweden that designs antennas for specialized industrial IoT and vehicular applications ("Smarteq"), pursuant to a Share Sale and Purchase Agreement between PCTEL and Allgon Aktiebolag, a Swedish company and holder of the outstanding stock of Smarteq (the "Agreement"). Smarteq owns all the outstanding stock of SAS Smarteq France, which engages in sales of Smarteq products. PCTEL paid cash consideration of SEK 56.8 million (\$6.8 million) at the close of the transaction, all of which was provided from PCTEL's existing cash.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements of PCTEL, Inc. ('PCTEL', the 'Company', 'we', 'our', and 'us') and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the consolidated financial statements for the year ended December 31, 2020 contained in our Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K"). Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses, revenue mix and the impact on our business from the COVID-19 pandemic. These forward-looking statements include, among others, those statements including the words "may," "will," "plans," "seeks," "expects," "anticipates," "intends," "believes" and words of similar meaning. Such statements constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. No undue reliance should be placed on these forward-looking statements. Our actual results could differ materially from those projected in these forward-looking statements. Specifically, the statements about our expectations regarding the impact of the COVID-19 pandemic; our future financial performance; growth of our antenna solutions and Industrial IoT and test and measurement businesses; the impact of the acquisition of Smarteq on the Company's ability to offer additional products, expand in the European market, and generate revenue; the impact of our transition plan for manufacturing inside and outside China; the impact of the uncertainty regarding the renewal of our lease of our Tianjin, China manufacturing premises; the anticipated demand for certain products including those related to public safety, Industrial IoT, 5G and intelligent transportation; the impact of tariffs on certain imports from China; and the anticipated growth of public and private wireless systems are forward-looking statements. These statements are based on management's current expectations and actual results may differ materially from those projected as a result of certain risks and uncertainties, including the disruptions to our workforce, operations, supply chain and customer demand caused by the COVID-19 pandemic and impact of the pandemic on our results of operations, financial condition and stock price; the impact of data densification and IoT on capacity and coverage demand; the impact of 5G; customer demand and growth generally in our defined market segments, including demand from customers in China; the Company's ability to integrate Smarteq, expand its European presence and benefit from additional antenna and Industrial IoT product offerings; the impact of the uncertainty regarding renewal of our lease of our Tianjin, China manufacturing premises; the impact of tariffs on certain imports from China; and our ability to grow our business and create, protect and implement new technologies and solutions. These forward-looking statements are made only as of the date hereof. We do not undertake, and expressly disclaim, any obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise.

COVID-19 Update

The global COVID-19 outbreak and increased business uncertainty had an adverse impact on our financial results during 2020 through global shutdowns and supply chain and operational disruptions. We took a variety of actions during 2020 to help mitigate the financial impact, including executing temporary cost savings measures, reducing our capital spending, and proactively managing our working capital. For test & measurement products, we experienced sequentially higher revenues during 2020 and higher revenues in the first quarter 2021 compared to the prior year. Demand for our antennas and Industrial IoT devices is taking longer to recover, but improvement is expected during 2021.

Our foremost focus continues to be the health and safety of our employees. We continue to maintain our enhanced health and safety protocols, including encouraging our employees to seek vaccination when eligible. We will continue to closely monitor the risks posed by COVID-19 and the guidance from relevant authorities and to adjust our practices accordingly, as we have throughout the pandemic.

Business Overview

PCTEL is a leading global provider of wireless technology, including purpose-built Industrial Internet of Things ("Industrial IoT") devices, antenna systems, and test and measurement solutions. We solve complex wireless challenges to help organizations stay connected, transform, and grow. We have a strong brand presence and expertise in radio frequency ("RF"), digital and mechanical engineering. We have two businesses (antennas/Industrial IoT devices and test & measurement products) that address three market segments: Enterprise Wireless, Intelligent Transportation, and Industrial IoT. Our antennas and Industrial IoT devices include antennas deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for Industrial IoT. Our test & measurement products improve the performance of wireless networks globally. Mobile operators, neutral hosts, and network equipment manufacturers rely on our products to analyze, design, and optimize next generation wireless networks. We seek out product applications that command a premium for product design and performance, and we avoid commodity markets. Our strength is solving complex wireless challenges for our customers through our products and solutions. To this end, we are constantly innovating and improving antenna and wireless testing products and capabilities to capture the opportunities of the rapidly evolving wireless industry. We focus on engineering, research, and development to maintain and expand our competitiveness.

Antennas and Industrial IoT devices

PCTEL designs and manufactures precision antennas and Industrial IoT devices, and we offer in-house wireless product development for our customers, including design, testing, radio integration, and manufacturing capabilities. Revenue growth in these markets is driven by the increased use and complexity of wireless communications. Our antenna portfolio includes Wi-Fi, Bluetooth, Land Mobile Radio (“LMR”), Tetra, Global Navigation Satellite System (“GNSS”), Cellular, industrial, scientific, medical (“ISM”), LoRa, and combination antenna solutions. Our Industrial IoT device portfolio includes access points, radio modules, and wireless communication sensors. Consistent with our mission to solve complex network engineering problems and to compete effectively in the antenna market, PCTEL maintains expertise in the following areas: radio frequency engineering, wireless network engineering, mechanical engineering, mobile antenna design, manufacturing, and product quality and testing.

Test & Measurement Products

PCTEL provides RF test & measurement products that improve the performance of wireless networks globally, with a focus on LTE, public safety, and 5G technologies. Revenue growth in this market is driven by the implementation and roll out of new wireless technology standards (i.e., 3G to 4G, 4G to 5G) and new market applications for public safety and government. Our portfolio includes scanning receivers, scanning receiver software, public safety solutions, interference location systems, and mmwave transmitters. Our scanning receivers are software defined radios used to 1) confirm adequate RF coverage during deployment, 2) identify interfering signals which decreases capacity, 3) troubleshoot system performance issues as networks expand, and 4) benchmark competing networks because our scanning receivers can scan all technologies across all frequencies during one test. They are necessary for initial network deployment and throughout the entire life cycle of the mobile network. Most of our 4G scanners can be upgraded to 5G via firmware. Consistent with our mission to solve complex network engineering problems and to compete effectively in the RF test & measurement market, PCTEL maintains expertise in the following areas: radio frequency engineering, digital signal processing (“DSP”) engineering, wireless network engineering, mechanical engineering, manufacturing, and product quality and testing.

First Quarter Overview

Revenues for the three months ended March 31, 2021 were \$17.7 million, an increase of 1.1% compared to \$17.5 million for the same period in 2020. By product line, revenues increased by \$0.1 million (2.0%) to \$6.2 million for test & measurement products and increased by \$0.3 million (2.3%) to \$11.7 million for antennas and Industrial IoT devices. Gross profits of \$8.3 million for the quarter increased by \$0.1 million compared to the same period in 2020, primarily due to higher test & measurement gross profits. Operating expense of \$9.0 million was \$0.1 million lower than in the first quarter 2020 as expenses were higher, for research and development and general and administrative, but lower for sales and marketing, intangible amortization, and restructuring. The net impact of these changes resulted in income before tax in the first quarter 2021 that was approximately the same as compared to the first quarter of 2020. The net loss before tax was \$0.7 million for each of the three months ended March 31, 2021 and 2020.

Our cash and investments decreased by \$0.4 million during the first quarter 2021. As of March 31, 2021, we had cash and investments of \$40.6 million and no debt.

Smarteq Acquisition

On April 30, 2021, we acquired all the outstanding stock of Smarteq Wireless Aktiebolag, a Swedish company based in Kista, Sweden that designs antennas for specialized industrial IoT and vehicular applications (“Smarteq”), pursuant to a Share Sale and Purchase Agreement between PCTEL and Allgon Aktiebolag, a Swedish company and holder of the outstanding stock of Smarteq (the “Agreement”). Smarteq owns all the outstanding stock of SAS Smarteq France, which engages in sales of Smarteq products. PCTEL paid cash consideration of SEK 56.8 million (\$6.8 million) at the close of the transaction, all of which was provided from PCTEL’s existing cash. We believe the acquisition of Smarteq will provide a strong local presence, expertise, and channel partners to accelerate our growth in Europe, as well as a complementary portfolio of products for our Industrial IoT and intelligent transportation customers worldwide.

Results of Operations

Three Months Ended March 31, 2021 and 2020

(in thousands)

Revenues by Product Line

	2021	Three Months Ended March 31,		% Change
		2020	\$ Change	
Antennas & Industrial IoT Devices	\$ 11,723	\$ 11,460	\$ 263	2.3%
Test & Measurement Products	6,205	6,083	122	2.0%
Corporate	(221)	(37)	(184)	not meaningful
Total	\$ 17,707	\$ 17,506	\$ 201	1.1%

Revenues increased 1.1% for the three months ended March 31, 2021 compared to the same period in 2020 due to higher revenues for both i) antennas and industrial IoT devices and ii) test & measurement products. For the three months ended March 31, 2021, revenues increased for antennas and industrial IoT devices by 2.3% compared to the same period in 2020 as a result of increased revenues generated by antennas for fleet and transit applications. Revenues for the test & measurement product line increased 2.0% for the three months ended March 31, 2021 compared to the three months ended March 31, 2020, as higher revenues for scanning receivers for public safety applications offset lower revenues in North America for 5G technologies.

Gross Profit by Product Line

	2021	Three Months Ended March 31,		% of Revenues
		% of Revenues	2020	
Antennas & Industrial IoT Devices	\$ 3,747	32.0%	\$ 3,918	34.2%
Test & Measurement Products	4,588	73.9%	4,297	70.6%
Corporate	3	not meaningful	0	not meaningful
Total	\$ 8,338	47.1%	\$ 8,215	46.9%

The gross profit percentage increased by 0.2% for the three months ended March 31, 2021 compared to the same period in 2020 due to a higher gross profit margin for test & measurement products, offsetting a lower gross margin percentage for antennas and industrial IoT devices. The gross profit percentage for antennas and Industrial IoT devices decreased by 2.2% for the three months ended March 31, 2021 compared to the same period in 2020 due to a less favorable product mix and the negative impact of foreign currency on manufacturing costs, and higher transportation costs. The gross profit percentage for test & measurement products increased by 3.3% for the three months ended March 31, 2021 compared to the same period in 2020 because there was no intangible amortization expense in cost of sales for test & measurement products in the three months ended March 31, 2021 compared to \$0.1 million in the comparable period in 2020, as well as due to lower headcount.

Consolidated Operating Expenses

	Three Months Ended March 31,		Three Months Ended March 31,		% of Revenues	
	2021	Change	2020	2021	2020	
Research and development	\$ 3,194	\$ 165	\$ 3,029	18.0%	17.3%	
Sales and marketing	2,763	(379)	3,142	15.6%	17.9%	
General and administrative	3,076	274	2,802	17.4%	16.0%	
Amortization of intangible assets	0	(33)	33	0.0%	0.2%	
Restructuring expenses	0	(87)	87	0.0%	0.5%	
Total	\$ 9,033	\$ (60)	\$ 9,093	51.0%	51.9%	

Research and development expenses were higher by \$0.2 million for the three months ended March 31, 2021 compared to the same period in 2020 due to increased spending on outside services and materials for product development, employee costs, and depreciation expense. The increase in spending on outside services and product development was primarily related to antennas and Industrial IoT devices.

Sales and marketing expenses include costs associated with the sales and marketing employees, product line management, and trade show expenses.

Sales and marketing expenses decreased \$0.4 million for the three months ended March 31, 2021 compared to the same period in 2020 as travel expenses declined by \$0.2 million, trade show expenses declined by \$0.1 million, and commissions and bad debt declined by \$0.1 million. Travel expenses were lower in the first quarter 2021 because business travel is still limited due to the COVID-19 pandemic.

General and administrative expenses include costs associated with general management, finance, human resources, IT, legal, public company costs, and other operating expenses to the extent not otherwise allocated to business segments.

General and administrative expenses increased by \$0.3 million for the three months ended March 31, 2021 compared to the same period in 2020 due to higher professional fees incurred during the quarter associated with the acquisition of Smarteq.

Amortization of intangible assets within operating expenses was zero for the three months ended March 31, 2021 and was lower by approximately \$0.1 million compared to the same period in 2020 as certain intangible assets became fully amortized during the first quarter 2020. As of March 31, 2020, all intangible assets were fully amortized.

Restructuring expenses relate to the transition of manufacturing from our Tianjin facility to contract manufacturers. There were no restructuring expenses during the three months ended March 31, 2021. Restructuring expenses of \$0.1 million for the three months ended March 31, 2020 consisted of employee severance and payroll related costs associated with the termination of nine employees in connection with our transition of certain manufacturing activities in our Tianjin, China facility to contract manufacturers. During 2021 we will reduce additional headcount in Tianjin and incur additional restructuring charges for severance and non-cash costs. We expect additional severance of between \$0.8 million and \$1.0 million in 2021. We expect the transition to be substantially completed by the end of the 2021 fiscal year.

Other Income, Net

	Three Months Ended	
	2021	March 31, 2020
Interest income	\$ 35	\$ 163
Foreign exchange gains	8	37
Other, net	(5)	(2)
Total	<u>\$ 39</u>	<u>\$ 198</u>
Percentage of revenues	0.2%	1.1%

Other income, net consists of interest income, foreign exchange gains, and interest expense. Interest income from investment securities decreased during the three months ended March 31, 2021 compared to the prior year, primarily due to lower average interest rates. Foreign exchange gains during the three months ended March 31, 2021 and 2020 were related to changes in the exchange rate between the Chinese Yuan and the U.S. dollar.

Expense for Income Taxes

	Three Months Ended March 31,	
	2021	2020
Expense for income taxes	\$ 6	\$ 8
Effective tax rate	(0.9)%	(1.2)%

We recorded income tax expense of \$6 and \$8 for the three months ended March 31, 2021 and 2020, respectively. The expense recorded for the three months ended March 31, 2021 and 2020 differed from the Federal statutory rate of 21% primarily because we have a full valuation allowance on our deferred tax assets. The full valuation allowance is due to the uncertainty regarding the utilization of the deferred tax assets.

On a regular basis, we evaluate the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. We considered multiple factors in our evaluation of the need for a valuation allowance. The full valuation allowance against our deferred tax assets was \$12.9 million at March 31, 2021 and December 31, 2020. The deferred tax assets consist of domestic deferred tax assets of \$12.2 million and foreign deferred tax assets of \$0.8 million. We recorded pretax book income during 2020 and believe our financial outlook remains positive. However, the COVID-19 pandemic has

created a high level of uncertainty. Due to this uncertainty, as well as difficulties with forecasting financial results historically, we maintained a full valuation allowance on our deferred tax assets at March 31, 2021. The analysis that we prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance. See Note 11 to the condensed consolidated financial statements for more information related to income taxes.

Net Loss

The net loss of \$0.7 million for the three months ended March 31, 2021 was approximately the same as in the three months ended March 31, 2020 as higher gross profit and lower operating expenses were offset by lower other income in the three months ended March 31, 2021 compared to the prior period. The increase in gross profit was a result of a slight increase in both revenues and gross profit margin. Operating expenses declined by \$0.1 million as we spent more on research and development and general and administrative expenses, but we incurred no restructuring expenses or intangible amortization expense. Other income was lower by \$0.2 million because of lower interest income as a result of lower interest rates.

Liquidity and Capital Resources

	Three Months Ended March 31,	
	2021	2020
Net cash flow provided by (used in):		
Operating activities	\$ 1,654	\$ 4,289
Investing activities	\$ 7,100	\$ 2,432
Financing activities	\$ (1,709)	\$ (4,099)
Net increase in cash and cash equivalents	\$ 7,045	\$ 2,622

	March 31	December 31,
	2021	2020
Cash and cash equivalents at the end of period	\$ 12,796	\$ 5,761
Short-term investments at the end of period	\$ 24,805	\$ 30,582
Long-term investments at the end of period	\$ 2,963	\$ 4,640
Working capital at the end of period	\$ 53,131	\$ 52,868

Overview

Our primary source of liquidity is cash provided by operations, with short-term swings in liquidity supported by a significant balance of cash and short-term investments. The balance has fluctuated with cash from operations, acquisitions and divestitures, payment of dividends and the repurchase of our common shares.

Within operating activities, we are historically a net generator of operating funds from our income statement activities. During the three months ended March 31, 2021, our balance sheet provided operating funds. In periods of expansion, we expect to use cash from our balance sheet.

Within investing activities, capital spending historically ranges between 2.0% and 4.0% of our revenues and the primary use of capital is for manufacturing, engineering, and product development. We historically have made significant transfers between investments and cash as we rotate our large cash balances and short-term investment balances between money market funds, which are accounted for as cash equivalents, and other investment vehicles. We have a history of supplementing our organic revenue with acquisitions of product lines or companies, resulting in significant uses of our cash and short-term investment balances from time to time. We expect the historical trend for capital spending and the variability caused by moving money between cash and investments and periodic merger and acquisition activity to continue in the future.

Within financing activities, we have historically generated funds from the exercise of stock options and proceeds from the issuance of common stock through the ESPP. We have historically used funds to issue dividends and we periodically repurchase shares of our common stock through share repurchase programs. We used \$3.8 million for the repurchase of shares during the 2020, which was funded with cash on hand. As of March 31, 2021, there is \$3.2 million remaining under our repurchase program.

At March 31, 2021, our cash, cash equivalents, and investments (short-term and long-term) were approximately \$40.6 million, and we had working capital of \$53.1 million. As the COVID-19 pandemic continues to evolve, we are proactively managing our costs and our working capital in order to protect our financial position and maintain our workforce. Management believes our cash and

investments provide adequate liquidity and working capital to support our operations given our historic ability to generate free cash flow (cash flow from operations less capital spending) and our lack of debt.

Operating Activities:

Operating activities generated \$1.7 million of cash during the three months ended March 31, 2021. We generated \$0.7 million of cash from our statement of operations activities and \$1.0 million from the balance sheet. The balance sheet was a net source of cash as reductions in accounts receivable were partially offset by the reduction in accounts payable. Accounts receivable decreased by \$2.0 million primarily because revenues declined by \$3.5 million for the three months ended March 31, 2021 compared to the three months ended December 31, 2020. The reduction in accounts payable primarily relates to reduced purchases of inventory and the timing of supplier payments.

Operating activities generated \$4.3 million of cash during the three months ended March 31, 2020. We generated \$0.9 million of cash from our statement of operations activities and \$3.4 million from the balance sheet. The balance sheet was a net source of cash as reductions in accounts receivable and inventories as well as an inflation in our accounts payable balance offset payments for accrued liabilities. Accounts receivable decreased by \$3.4 million primarily because revenues declined by \$5.4 million from the fourth quarter 2019 to the first quarter 2020. Accrued liabilities decreased by \$3.6 million primarily because we paid \$2.6 million in the first quarter for cash bonuses earned under our 2019 short-term incentive plan.

Investing Activities:

Our investing activities provided \$7.1 million of cash during the three months ended March 31, 2021. During the three months ended March 31, 2020, redemptions and maturities of our investments provided \$13.4 million in funds and we rotated \$6.0 million of cash into new investments. We used \$0.4 million for capital expenditures during the three months ended March 31, 2021.

Our investing activities provided \$2.4 million of cash during the three months ended March 31, 2020. During the three months ended March 31, 2020, redemptions and maturities of our short-term investments provided \$13.9 million in funds and we rotated \$9.9 million of cash into new short-term investments. We used \$1.5 million for capital expenditures during the three months ended March 31, 2020. Capital expenditures during the three months ended March 31, 2020 were primarily related to our new Clarksburg, Maryland leased facility. We used cash of \$1.2 million for leasehold improvements and other facility related equipment for the facility which opened in January 2020.

Financing Activities:

We used \$1.7 million in cash for financing activities during the three months ended March 31, 2021. We used \$1.0 million for quarterly cash dividends. We used \$0.7 million for payroll taxes related to restricted stock awards and shares issued under the short-term incentive plan.

We used \$4.1 million in cash for financing activities during the three months ended March 31, 2020. We used \$1.0 million for quarterly cash dividends paid in February 2020 and \$2.0 million for share repurchases. We used \$1.1 million for payroll taxes related to stock-based compensation. The tax payments related to restricted stock awards and the short-term incentive plan.

Off-Balance Sheet Arrangements

None.

Contractual Obligations and Commercial Commitments

We had purchase obligations of \$13.3 million and \$10.9 million at March 31, 2021 and December 31, 2020, respectively, for the purchase of inventory as well as for other goods and services in the ordinary course of business. Balances for purchases currently recognized as liabilities on the balance sheet are excluded.

We had a liability of \$0.9 million and \$0.8 million related to income tax uncertainties at March 31, 2021 and December 31, 2020, respectively. We do not know the timing of the settlement of this liability.

Critical Accounting Policies and Estimates

We use certain critical accounting policies as described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” of the 2020 Form 10-K. There have been no material changes in any of our critical accounting policies since December 31, 2020. See Note 1 to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

See our 2020 Form 10-K (Item 7A). As of March 31, 2021, there have been no material changes in this information.

Item 4: Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act, as amended (the “Exchange Act”) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within time periods specified in the Securities and Exchange Commission rules and forms.

In connection with the evaluation required by Rule 13a-15(d), management, with the participation of the Chief Executive Officer and Chief Financial Officer, has identified that there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite transitioning nearly all of our administrative workforce to a remote working environment as a result of the COVID-19 pandemic. We are continually monitoring and assessing the impact of COVID-19 on our internal controls to minimize the impact to their design and operating effectiveness.

Item 1: Legal Proceedings

We may, from time to time, be the subject of various pending or threatened legal actions in the ordinary course of our business. All such matters are subject to many uncertainties and outcomes that are not predictable with assurance. To our knowledge, as of March 31, 2021, there were no claims or litigation pending against the Company that would be reasonably likely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Item 1A: Risk Factors

See our 2020 Form 10-K (Item 1A). As of May 10, 2021, there have been no material changes in this information other than the risk factor below.

We face risks as a result of the acquisition of Smarteq Wireless Aktiebolag.

On April 30, 2021, we completed our acquisition of Smarteq Wireless Aktiebolag (“Smarteq”). As a result of the acquisition, we face various risks, including, among others, the following:

- difficulty in integrating Smarteq’s products, engineering and technology, operations, sales and distribution channels, internal accounting controls, or work force with our existing business;
- greater than anticipated costs related to the integration of Smarteq’s business and operations into our existing business and operations;
- diversion of resources and management attention from other strategic activities
- disruption of our on-going business and of Smarteq’s business, operations, and relationships with contract manufacturers, suppliers, service providers, customers, and employees;
- difficulty in realizing the potential financial or strategic benefits of the acquisition of Smarteq;
- difficulty in maintaining uniform standards, controls, procedures, and policies;
- tax, employment, logistics, and other related issues unique to Smarteq or organizations like Smarteq;
- possible impairment of relationships with employees and customers as a result of integration of the Smarteq business and our existing business;
- possible impairment of assets related to goodwill resulting from the acquisition of Smarteq, and reductions in our future operating results from amortization of intangible assets.

While we performed significant due diligence on Smarteq prior to consummating the acquisition, we are dependent on the accuracy and completeness of statements and disclosures made by Smarteq and its representatives. We did not control and may be unaware of activities of Smarteq before the acquisition relating to, among other things, intellectual property, litigation or disputes, information security vulnerabilities, violations of laws, policies, rules and regulations, commercial disputes, tax liabilities, and other liabilities.

Any of the risks described above could have a material adverse impact on our business, financial condition, results of operations, or prospects.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchase of Equity Securities

The following table provides the activity of the Company’s share repurchase program:

Period	Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares That May Yet be Purchased Under the Program
January 1 to January 31, 2021	4,700	\$ 6.50	4,700	\$ 3,161
February 1 to February 28, 2021	0	\$ 0.00	0	\$ 3,161
March 1 to March 31, 2021	0	\$ 0.00	0	\$ 3,161
Total	4,700	\$ 6.50	4,700	\$ 3,161

On November 4, 2020 the Company's Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to \$5.0 million of its common stock through the end of 2021. The Company repurchased 4,700 shares at an average price of \$6.50 during the three months ended March 31, 2021 under this share repurchase program.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

Exhibit No.	Description
31.1*	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following materials from PCTEL, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 formatted Inline XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Balance Sheet, (iii) the Unaudited Condensed Consolidated Statement of Stockholders' Equity, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* filed herewith

** furnished herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

PCTEL, Inc.,
a Delaware corporation

/s/ David A. Neumann

David A. Neumann
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2021

/s/ Kevin J. McGowan

Kevin J. McGowan
Chief Financial Officer
(Principal Financial Officer)

Date: May 10, 2021

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Neumann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCTEL, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

/s/ David A. Neumann
David A. Neumann
[Chief Executive Officer]
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin J. McGowan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCTEL, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

/s/ Kevin J. McGowan
Kevin J. McGowan
Chief Financial Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PCTEL, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

DATE: May 10, 2021

By: /s/ David A. Neumann
DAVID A. NEUMANN
[Chief Executive Officer]
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PCTEL, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

DATE: May 10, 2021

By: /s/ Kevin J. McGowan
KEVIN J. MCGOWAN
[Chief Financial Officer]
(Principal Executive Officer)