PC TEL INC
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

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

For the transition period from to

Commission File Number 000-27115

PCTEL, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

(630) 372-6800

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

Title	Outstanding
Common Stock, par value $.001 per share	17,264,586 as of May 9, 2016

PCTEL, INC.

Form 10-Q

For the Quarterly Period Ended March 31, 2016

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)

PCTEL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	(unaudited) March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 4,451	$ 7,055
Short-term investment securities	23,431	24,728
Accounts receivable, net of allowance for doubtful accounts of $263 and $314 at March 31, 2016 and December 31, 2015, respectively	16,158	21,001
Inventories, net	17,479	17,596
Prepaid expenses and other assets	1,726	1,586
Total current assets	63,245	71,966
Property and equipment, net	13,659	13,839
Goodwill	3,332	3,332
Intangible assets, net	10,609	11,378
Deferred tax assets, net	14,566	13,155
Other noncurrent assets	39	40
TOTAL ASSETS	$ 105,450	$ 113,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 4,729	$ 6,735
Accrued liabilities	5,283	6,190
Total current liabilities	10,012	12,925
Other long-term liabilities	415	388
Total liabilities	10,427	13,313
Stockholders' equity:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 17,249,586 and 17,654,236 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	17	18
Additional paid-in capital	132,643	135,714

Accumulated deficit	(37,646)	(35,320)
Accumulated other comprehensive income (loss)	9	(15)
Total stockholders’ equity	95,023	100,397
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 105,450	$ 113,710

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, 2016	2015
REVENUES	$21,074	$26,326
COST OF REVENUES	14,023	16,137
GROSS PROFIT	7,051	10,189
OPERATING EXPENSES:		
Research and development	2,607	2,738
Sales and marketing	3,115	3,530
General and administrative	2,962	3,363
Amortization of intangible assets	603	654
Restructuring expenses	517	0
Total operating expenses	9,804	10,285
OPERATING LOSS	(2,753)	(96)
Other income, net	6	44
LOSS BEFORE INCOME TAXES	(2,747)	(52)
Benefit for income taxes	(1,291)	(19)
NET LOSS	$(1,456)	$(33)
Net Loss per Share:		
Basic	$(0.09)	$(0.00)
Diluted	$(0.09)	$(0.00)
Weighted Average Shares:		
Basic	16,324	18,312
Diluted	16,324	18,312
Cash dividend per share	$0.05	$0.05

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

PCTEL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
NET LOSS	$(1,456)	$(33)
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustments	24	(4)
COMPREHENSIVE LOSS	$(1,432)	$(37)

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

PCTEL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of PCTEL, Inc.
BALANCE at JANUARY 1, 2016	$ 18	$ 135,714	$ (35,320)	$ (15)	$ 100,397
Stock-based compensation expense	0	859	0	0	859
Issuance of shares for stock purchase and option plans	0	350	0	0	350
Cancellation of shares for payment of withholding tax	0	(186)	0	0	(186)
Repurchase of common stock	(1)	(4,094)	0	0	(4,095)
Dividends paid	0	0	(870)	0	(870)
Net loss	0	0	(1,456)	0	(1,456)
Change in cumulative translation adjustment, net	0	0	0	24	24
BALANCE at MARCH 31, 2016	$ 17	$ 132,643	$ (37,646)	$ 9	$ 95,023

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

PCTEL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

.	Three Months Ended March 31, 2016	2015
Operating Activities:		
Net loss	$(1,456)	$(33)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,561	1,398
Stock-based compensation	859	501
Restructuring costs	224	0
Payment of withholding tax on stock based compensation	(186)	(396)
Deferred tax provision	(1,411)	(20)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	4,861	5,008
Inventories	149	(1,343)
Prepaid expenses and other assets	(137)	(289)
Accounts payable	(1,971)	63
Income taxes payable	2	(115)
Other accrued liabilities	(1,074)	(3,490)
Deferred revenue	10	(1,168)
Net cash provided by operating activities	1,431	116
Investing Activities:		
Capital expenditures	(699)	(364)
Proceeds from disposal of property and equipment	1	0
Purchases of investments	(15,602)	(2,430)
Redemptions/maturities of short-term investments	16,899	11,066
Purchase of assets	0	(20,500)
Net cash provided by (used in) investing activities	599	(12,228)
Financing Activities:		
Proceeds from issuance of common stock	350	543
Payments for repurchase of common stock	(4,095)	0
Cash dividends	(870)	(929)
Net cash used in financing activities	(4,615)	(386)
Net decrease in cash and cash equivalents	(2,585)	(12,498)
Effect of exchange rate changes on cash	(19)	(17)
Cash and cash equivalents, beginning of year	7,055	20,432
Cash and Cash Equivalents, End of Period	$4,451	$7,917

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

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PCTEL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2016 (Unaudited)
(in thousands except per share data and as otherwise noted)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Nature of Operations

PCTEL, Inc. (“PCTEL”, the “Company”, “we”, “ours”, and “us”) delivers Performance Critical Telecom solutions. RF Solutio develops and provides test equipment, software and engineering services for wireless networks. The industry relies upon PCTEL to benchmark network performance, analyze trends, and optimize wireless networks. Connected Solutions designs and delivers performance critical antennas and site solutions for wireless networks globally. Our antennas support evolving wireless standards for cellular, private, and broadband networks. PCTEL antennas and site solutions support networks worldwide, including Supervisory Control and Data Acquisition (“SCADA”) for oil, gas and utilities, fleet management, industrial operations, health care, small cell and network timing deployment, defense, public safety, education, and broadband access.

Segment Reporting

PCTEL operates in two segments for reporting purposes, Connected Solutions and RF Solutions. The Company’s chief operating decision maker uses the profit and loss results through operating profit and identified assets for the Connected Solutions and RF Solutions segments to make operating decisions. Each segment has its own segment manager as well as its own engineering, sales and marketing, and operational general and administrative functions. All of the Company’s accounting and finance, human resources, IT and legal functions are provided on a centralized basis through the corporate function. The Company manages its balance sheet and cash flows centrally at the corporate level, with the exception of trade accounts receivable and inventory which is managed at the segment level. Each of the segment managers reports to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment.

Connected Solutions Segment

Connected Solutions designs and delivers performance critical antennas and site solutions for wireless networks globally. The Company’s antennas and site solutions support networks worldwide, including SCADA for oil, gas and utilities, fleet management, industrial operations, health care, small cell and network timing deployment, defense, public safety, education, and broadband access. PCTEL's performance critical MAXRAD® and Bluewave™ antenna solutions include high rejection and high performance GPS and GNSS products, the industry leading Yagi portfolio, mobile and indoor LTE, broadband, and LMR antennas and PIM-rated antennas for transit, in-building, and small cell applications. We leverage our design, logistics, and support capabilities to deliver performance critical site solutions into carrier, railroad, and utility applications. Revenue growth for antenna and site solutions is primarily driven by the increased use of wireless communications in these vertical markets. PCTEL's antenna and site solution products are primarily sold through distributors, value-added resellers, and original equipment manufacturer ("OEM") providers.

There are many competitors for antenna products, as the market is highly fragmented. Competitors include Laird (Cushcraft, Centurion, and Antennex products), Mobile Mark, Radiall/Larsen, Comtelco, Wilson, Commscope (Andrew products), and Kathrein, among others. The Company seeks out product applications that command a premium for product performance and customer service, and avoids commodity markets.

PCTEL maintains expertise in several technology areas in order to be competitive in the antenna engineered site solutions market. These include radio frequency engineering, mobile antenna design and manufacturing, mechanical engineering, product quality and testing, and wireless network engineering.

RF Solutions Segment

RF Solutions develops and provides performance critical test equipment, software, and engineering services for wireless networks. The industry relies upon PCTEL to benchmark network performance, analyze trends, and optimize wireless networks. SeeGull® scanning receivers are used around the world for indoor and drive test applications, including baseline testing, acceptance testing, competitive benchmarking, spectrum clearing, troubleshooting, and network optimization. SeeGull scanning receivers provide high quality real-world RF measurements needed to build, tune, troubleshoot, and expand commercial wireless networks. The Company’s highly-trained engineering services team uses state-of-the-art test, measurement, and design tools to provide engineering services for in-building and outdoor networks. Our engineering services team (“NES”) provides wireless network testing, optimization, design, integration, and consulting services, with an emphasis on in-building distributed antenna systems (“DAS”). Revenue growth for the segment’s products and services is driven by the deployment of products based on new wireless technology and the need for wireless networks to be tuned and reconfigured on a regular basis. Scanning receiver products are sold primarily through test and measurement value-added resellers and to a lesser extent directly to network operators. Competitors for these products include OEMs such as JDS Uniphase, Rohde and Schwarz, Anritsu, Digital Receiver Technology, and Berkley Varitronics.

On February 27, 2015, PCTEL acquired substantially all of the assets of, and assumed certain specified liabilities of, Nexgen Wireless, Inc. (“Nexgen”), pursuant to an Asset Purchase Agreement dated as of February 27, 2015. Nexgen provides a network analysis tool portfolio now known as SeeHawk® Analytics, and engineering services. Nexgen's software product portfolio translates real-time network performance data into engineering actions to optimize operator performance and supports crowd-based, cloud-based data analysis to enhance network performance. Nexgen provides performance engineering, specialized staffing, and trend analysis for carriers, infrastructure vendors, and neutral hosts for 2G, 3G, 4G, and LTE networks. Refer to Note 7 for additional information on the Nexgen acquisition.

PCTEL maintains expertise in several technology areas in order to be competitive in the scanning receiver and related engineering services market. These include radio frequency engineering, DSP engineering, manufacturing, mechanical engineering, product quality and testing, and wireless network engineering.

Basis of Consolidation

The condensed consolidated balance sheet as of March 31, 2016 and the condensed consolidated statements of operations, statements of comprehensive loss, and cash flows for the three months ended March 31, 2016 and 2015, respectively, are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The interim condensed consolidated financial statements are derived from the audited financial statements as of December 31, 2015.

The unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted. The significant accounting policies followed by the Company are set forth within the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“the 2015 Form 10-K”). There were no changes in the Company’s significant accounting policies during the three months ended March 31, 2016. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2015 Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the 2015 Form 10-K. The results of operations for the period ended March 31, 2016 may not be indicative of the results for the period ending December 31, 2016.

Foreign Operations

The Company is exposed to foreign currency fluctuations due to its foreign operations and because products are sold internationally. The functional currency for the Company's foreign operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using the exchange rate in effect at the applicable balance sheet date for assets and liabilities and average monthly rates prevailing during the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in the condensed consolidated statement of operations. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were $17 and $6 for the three months ended March 31, 2016 and 2015, respectively.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. ASU No. 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. Earlier application is permitted. The Company is currently evaluating the impact the standard may have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which requires lessees to recognize assets and liabilities for the rights and obligations created by most leases on their balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact the standard may have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax assets and liabilities be entirely classified as noncurrent within the statement of financial position. Effective December 31, 2015, the Company early adopted the balance sheet classification of deferred taxes on a prospective basis. The guidance requires deferred tax assets and liabilities to be classified as noncurrent rather than split between current and noncurrent. Approximately $1.8 million in current deferred tax assets was reclassified to long-term deferred tax assets at December 31, 2015.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” which introduces a new revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The FASB has voted to approve a one-year deferral of the effective date from January 1, 2017 to January 1, 2018, while allowing for early adoption as of January 1, 2017. The new accounting standard is expected to have an impact to the Company’s consolidated financial statements. The Company is currently evaluating the adoption method options and the impact of the new guidance on our 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 and other investments are financial assets with carrying values that approximate fair value due to the short-term nature of these assets. Accounts payable is a financial liability with a carrying value that approximates fair value due to the short-term nature of these liabilities.

3. Earnings per Share

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

	Three Months Ended March 31,	
	2016	2015
Basic Earnings Per Share computation:		
Numerator:		
Net loss	$(1,456)	$(33)
Denominator:		
Common shares outstanding	16,324	18,312
Earnings per common share - basic		
Net loss	$(0.09)	$(0.00)
Diluted Earnings Per Share computation:		
Denominator:		
Common shares outstanding	16,324	18,312
Restricted shares subject to vesting	*	*
Performance shares subject to vesting	*	*
Common stock option grants	*	*
Total shares	16,324	18,312
Earnings per common share - diluted		
Net loss	$(0.09)	$(0.00)

* As denoted by "*" in the table above, the weighted average common stock option grants and restricted shares of 140,000 and 213,000 for the three months ended March 31, 2016 and 2015 respectively were excluded from the calculations of diluted net loss per share since their effects are anti-dilutive.

4. Cash, Cash Equivalents and Investments

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

	March 31, 2016	December 31, 2015
Cash	$2,159	$ 6,077
Cash equivalents	2,292	978
Short-term investments	23,431	24,728
	$27,882	$ 31,783

Cash and Cash equivalents

At March 31, 2016, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At March 31, 2016 and December 31, 2015, 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 cash in the Company's U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of $250.

At March 31, 2016, the Company had $2.2 million in cash and $2.3 million in cash equivalents, and at December 31, 2015, the Company had $6.1 million in cash and $1.0 million in cash equivalents. The Company had $0.5 million and $1.3 million of cash and cash equivalents in foreign bank accounts at March 31, 2016 and December 31, 2015, respectively. The Company plans to repatriate its cash from its subsidiary in Israel during 2016 because we expect to cease operations of this subsidiary during 2016. The Company expects to incur incremental income tax of $0.1 million related to the repatriation of the funds from Israel. The Company does not expect the foreign currency exchange related to the repatriation of these funds to have a material impact on the financial statements. As of March 31, 2016, the Company has no intentions of repatriating the cash in its foreign bank accounts in the U.K. or China. If the Company decides to repatriate the cash in the foreign bank accounts, it may experience difficulty in doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds. The Company's cash in its foreign bank accounts is not insured.

Investments

At March 31, 2016 and December 31, 2015, the Company's short-term investments consisted of pre-refunded municipal bonds, U.S. government agency bonds, AA or higher rated corporate bonds, and certificates of deposit, all classified as held-to-maturity. At March 31, 2016, the Company had invested $7.0 million in AA rated or higher corporate bonds, $6.1 million in U.S. government agency bonds, $6.0 million in pre-refunded municipal bonds and $4.4 million in certificates of deposit . The income and principal from the pre-refunded municipal bonds are secured by an irrevocable trust of U.S. Treasury securities. The bonds have original maturities greater than 90 days and mature in less than one year. The Company's bonds are recorded at the purchase price and carried at amortized cost. The net unrealized gains (losses) were $(8) and $1 at March 31, 2016 and December 31, 2015, respectively. Approximately 8% and 11% of the Company's bonds were protected by bond default insurance at March 31, 2016 and December 31, 2015, respectively.

At December 31, 2015, the Company had invested $7.6 million in AA rated or higher corporate bond funds, $7.5 million in pre-refunded municipal bonds and taxable bond funds, $7.0 million in U.S. government agency bonds, and $2.7 million in certificates of deposit.

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.

Cash equivalents and Level 1 and Level 2 investments measured at fair value were as follows:

	March 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds and other cash equivalents	$2,294	$0	$ 0	$2,294	$978	$0	$ 0	$978
Investments:								
Corporate bonds	0	6,972	0	6,972	0	7,558	0	7,558
US government agency bonds	0	6,100	0	6,100	0	7,008	0	7,008
Pre-refunded municipal bonds	0	5,965	0	5,965	0	7,497	0	7,497
Certificates of deposit	4,400	0	0	4,400	2,666	0	0	2,666
Total	$6,694	$19,037	$ 0	$25,731	$3,644	$22,063	$ 0	$25,707

5. Goodwill and Intangible Assets

Goodwill

There were no changes to goodwill during the three months ended March 31, 2016. The $3.3 million of goodwill on the balance sheet was recorded in February 2015 as part of the purchase accounting for the Nexgen acquisition and was assigned to the RF Solutions segment. For evaluation purposes, this goodwill is part of the products reporting unit within the RF Solutions segment. Because the Company's market capitalization plus control premium was below its carrying value at March 31, 2016, the Company considered this deficit as a triggering event for evaluating goodwill for impairment. The Company performed a quantitative evaluation and determined no impairment was required. The Company will continue to monitor goodwill going forward.

Intangible Assets

The Company amortizes intangible assets with finite lives on a straight-line basis over the estimated useful lives, which range from one to eight years. Amortization expense was approximately $0.8 million and $0.7 million for the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016, $0.6 million of the intangible amortization was included in operating expenses and $0.2 million was included in cost of goods sold. For the three months ended March 31, 2015, the intangible amortization of $0.7 million was included in operating expenses.

The summary of other intangible assets, net is as follows:

	March 31, 2016			December 31, 2015		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	$25,497	$ 19,075	$6,422	$25,497	$ 18,616	$6,881
Patents and technology	10,114	7,504	2,610	10,114	7,337	2,777
Trademarks and trade names	4,960	3,834	1,126	4,960	3,738	1,222
Other	2,743	2,292	451	2,743	2,245	498
	$43,314	$ 32,705	$10,609	$43,314	$ 31,936	$11,378

The $0.8 million decrease in the net book value of intangible assets at March 31, 2016 compared to December 31, 2015 reflects amortization expense of $0.8 million recorded for the three months ended March 31, 2016.

Because the first quarter results of the Company's services reporting unit within the RF Solutions segment were below its plan and forecast, the Company reviewed its intangible assets for impairment by performing a test of recoverability. Based on this analysis, no impairment was required. Actual results in relation to the projections are the key factor in recoverability of the assets. If actual results do not meet the forecast, a future impairment may occur.

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

Intangible Assets	Assigned Life	Weighted Average Amortization Period
Customer contracts and relationships	4 to 6 years	5.0
Patents and technology	3 to 6 years	4.5
Trademarks and trade names	3 to 8 years	4.7
Other	1 to 6 years	4.4

The Company's scheduled amortization expense for 2016 and the next five years is as follows:

Fiscal Year	Amount
2016	$ 2,962
2017	$ 2,785
2018	$ 2,708
2019	$ 2,509
2020	$ 414

6. Balance Sheet Information

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amount with standard net terms that range between 30 and 60 days. The Company extends credit to its customers based on an evaluation of a customer’s financial condition and collateral is generally not required. The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company’s assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. The Company’s allowance for doubtful accounts was $0.3 million at March 31, 2016 and at December 31, 2015. The provision for doubtful accounts is included in sales and marketing expense in the condensed consolidated statements of operations.

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the first-in, first-out (“FIFO”) method of costing. Inventories as of March 31, 2016 and December 31, 2015 were composed of raw materials, sub-assemblies, finished goods and work-in-process. The Company had consigned inventory with customers of $0.5 million and $0.7 million at March 31, 2016 and December 31, 2015, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or market, including allowances for excess and obsolete inventory. Reserves for excess inventory are calculated based on our estimate of inventory in excess of normal and planned usage. Obsolete reserves are based on our identification of inventory where carrying value is above net realizable value. The allowance for inventory losses was $2.3 million at March 31, 2016 and $2.2 million at December 31, 2015.

Inventories consisted of the following:

	March, 31 2016	December 31, 2015
Raw materials	$10,585	$ 11,012
Work in process	931	917
Finished goods	5,963	5,667
Inventories, net	$17,479	$ 17,596

Prepaid and Other Current Assets

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

Property and Equipment

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

Property and equipment consisted of the following:

	March 31, 2016	December 31, 2015
Building	$6,227	$6,227
Computers and office equipment	11,148	10,931
Manufacturing and test equipment	12,985	12,826
Furniture and fixtures	1,231	1,273
Leasehold improvements	1,203	1,001
Motor vehicles	42	42
Total property and equipment	32,836	32,300
Less: Accumulated depreciation and amortization	(20,947)	(20,231)
Land	1,770	1,770
Property and equipment, net	$13,659	$13,839

Depreciation and amortization expense was approximately $0.8 million and $0.7 million for the three months ended March 31, 2016 and 2015, respectively. Amortization for capital leases is included in depreciation and amortization expense. See Note 10 for information related to capital leases.

Liabilities

Accrued liabilities consisted of the following:

	March 31, 2016	December 31, 2015
Paid time off	$1,281	$ 1,271
Inventory receipts	1,220	1,628
Payroll, bonuses, and other employee benefits	697	1,179
Professional fees and contractors	404	305
Income and sales taxes	380	381
Restructuring	364	237
Warranties	326	348
Real estate taxes	189	161
Employee stock purchase plan	85	280
Deferred revenues	74	65
Other	263	335
Total	$5,283	$ 6,190