

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 74625 / April 1, 2015

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3648 / April 1, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16470

In the Matter of

MICHAEL HEDRICK,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Michael Hedrick (“Hedrick” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Cease-And-Desist Proceedings, Pursuant to Section 21C Of The Securities Exchange Act of 1934, Making Findings, And Imposing A Cease-And-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that

Summary

1. This case involves a fraudulent scheme by the owner ("the CEO") of four private telecommunications companies (collectively "TelWorx"), to inflate the value of assets that the companies sold to PCTEL, Inc. ("PCTEL"), a public company, and its wholly owned subsidiary PCTelWorx, Inc. ("PCTelWorx"). The scheme had two main components: first, to inflate the value of inventory and to prematurely recognize revenue prior to the sale in order to fraudulently inflate the sale price; and second, to conceal these facts from PCTEL by prematurely recognizing revenue after the asset purchase. As a result of this scheme, TelWorx provided PCTEL materially false financial statements which were incorporated in a Commission filing. Hedrick, at the CEO's direction, recklessly inflated the value of obsolete inventory before the acquisition and recorded revenue prematurely both before and after the acquisition.

Respondent

2. **Michael Hedrick**, age 30, is a resident of Lexington, North Carolina. From 2010 through July 2012, he was TelWorx's controller. From July 2012 until January 2013, he was controller of PCTelWorx. Hedrick does not have an accounting degree and is not a certified public accountant. Hedrick entered into a cooperation agreement with the Division of Enforcement during its investigation of this matter.

Other Relevant Entities And Individual

3. **PCTEL, Inc.** is a Delaware corporation with its principal place of business in Bloomingdale, Illinois. The company provides products and services for wireless communication networks. Its stock is traded on the NASDAQ (ticker symbol PCTI).

4. **PCTelWorx, Inc.** was a wholly owned subsidiary of PCTEL. PCTEL merged PCTelWorx into PCTEL on June 30, 2014.

5. **The CEO** was the owner and CEO of one of the TelWorx companies. After July 2012, the CEO became the general manager of PCTelWorx, whose responsibilities included its day-to-day operations and providing its quarterly revenue forecasts to PCTEL.

Background

6. In the first and second quarters of 2012, PCTEL and PCTelWorx negotiated with the CEO to acquire the assets of TelWorx. PCTEL and PCTelWorx relied, in part, on TelWorx's

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

earnings before interest, taxes, depreciation, and amortization (“EBITDA”) to determine the price it would pay to acquire the assets.

7. The CEO informed Hedrick that he would receive a bonus for assisting with the due diligence related to the acquisition. Hedrick was responsible for providing financial information to PCTEL and TelWorx’s accounting firm (“the Accountants”).

8. In July of 2012, PCTEL and PCTelWorx acquired TelWorx’s assets for cash and an earn-out payment based on PCTEL’s 2013 financial performance and payable in PCTEL’s common stock. Hedrick received a \$25,000 bonus after PCTEL completed the acquisition.

9. Thereafter, PCTelWorx began operating similarly to TelWorx using the assets PCTEL acquired. The CEO operated and managed PCTelWorx and Hedrick served as its controller.

10. In the third and fourth quarter of 2012, PCTEL’s publicly-filed, consolidated financial statements included PCTelWorx’s financial results.

Before The Acquisition, False Entries In TelWorx’s General Ledger Inflated Revenue and EBITDA

11. In April of 2012, the CEO directed Hedrick to make a false entry in TelWorx’s general ledger which improperly inflated the value of certain obsolete telecommunications equipment (“the Modules”) in TelWorx’s inventory and improperly inflated TelWorx’s EBITDA. Hedrick made the entry as directed.

12. Subsequently, the CEO instructed Hedrick to send the Accountants an email that falsely stated that the Modules were undervalued on TelWorx’s general ledger and that Hedrick had corrected this error. By sending the email at the CEO’s direction, Hedrick acted recklessly because the Modules were not undervalued.

13. In May of 2012, the CEO also directed Hedrick to invoice certain customer orders before those orders had shipped, but to backdate the orders to the first quarter of 2012. By generating the invoices at the CEO’s direction, Hedrick acted recklessly because the orders had not yet shipped. As a result, TelWorx recognized revenue prematurely in its books and records in the first quarter of 2012.

14. The CEO then directed Hedrick to provide TelWorx’s income statements to the Accountants, and Hedrick did so.

15. The CEO later directed Hedrick to reverse these orders, thus reversing the revenue generated from these orders from TelWorx’s books and records. Hedrick reversed the orders as directed.

16. Near the end of the second quarter, PCTEL asked Hedrick to provide TelWorx’s estimated second quarter revenue. The CEO instructed Hedrick to send PCTEL an email providing

TelWorx's actual revenue for the first two months of the second quarter and estimated revenue for the final month of the second quarter. Hedrick sent the email as directed.

17. The CEO then instructed Hedrick to re-invoice several of the orders the CEO had previously instructed Hedrick to invoice and reverse, and Hedrick did so. Hedrick acted recklessly because those orders had not yet shipped. As a result, TelWorx recognized revenue for these orders prematurely a second time.

18. These false accounting entries caused material overstatements of TelWorx's EBITDA and its first and second quarter 2012 revenue.

19. TelWorx provided PCTEL with financial information that included these overstatements.

20. The false accounting entries increased the purchase price which PCTEL paid for TelWorx.

PCTelWorx Recorded Revenue From A False Transaction To Conceal Pre-Acquisition Inventory Write-Up and Third Quarter Revenue Shortfall

21. After the acquisition, in the middle of the third quarter of 2012, PCTEL began performing inventory valuation testing at PCTelWorx, which would have included testing the Modules whose value Hedrick inflated at the CEO's direction prior to the acquisition.

22. In order to conceal this fact from PCTEL, the CEO told Hedrick that he planned to purchase the Modules himself.

23. Even though the CEO was the purchaser, he subsequently instructed Hedrick to make an entry in PCTelWorx's books and records showing an order for the Modules naming a PCTelWorx's vendor, a telecommunications company located in Taiwan (the "Vendor"), as the purchaser. Hedrick entered the order from the Vendor at the CEO's direction, which caused PCTelWorx to record a false order in its books and records.

24. The CEO also instructed Hedrick to generate an invoice for this false order. Hedrick did so at the CEO's direction, which caused PCTelWorx to recognize revenue on the order prematurely.

25. However, neither the invoice, nor the Modules themselves, were ever shipped to the Vendor.

PCTelWorx Created False Documents In The Fourth Quarter To Conceal The Fake Order From PCTEL

26. In the middle of the fourth quarter of 2012, PCTEL asked PCTelWorx to provide it with all of the records concerning the Vendor's order. Because it was a false order, most of the requested records, such as the purchase order and shipping records, did not exist.

27. In order to conceal the fact that the Vendor's order was false, the CEO instructed Hedrick to request certain records for the Vendor's order by email from another PCTelWorx employee (the "Employee"). Hedrick knew that most of the records the CEO had him request did not exist, but sent the email as the CEO instructed.

28. The CEO then created several false records concerning the Vendor's order that PCTEL had requested. He provided these records to the Employee, and instructed the Employee to email the records and other false information concerning the Vendor's order to Hedrick. Hedrick provided the false information and false documents to PCTEL.

After The Acquisition, PCTEL Filed A Form 8-K/A That Included TelWorx's Materially Overstated Second Quarter Revenue

29. On September 24, 2012, PCTEL filed a Form 8-K/A which reported TelWorx's audited financial statements for 2010 and 2011, an unaudited compilation of TelWorx's financial statements as of June 30, 2012, and PCTEL's unaudited pro forma consolidated financial statements that included financial information for both PCTEL and TelWorx as if PCTEL had acquired TelWorx as of January 1, 2011.

30. The Form 8-K/A materially overstated revenue on TelWorx's financial statements due to the false entries Hedrick made in TelWorx's general ledger at the CEO's direction.

31. Hedrick signed a representation letter to the Accountants in which he stated he had no knowledge of any fraud by TelWorx's management in connection with income statements TelWorx provided to the Accountants.

32. PCTEL discovered the false entries in TelWorx's books and records and the false entries in PCTelWorx's books and records. Hedrick provided PCTEL with information about what had occurred. PCTEL issued a Form 8-K/A on March 13, 2013, disclosing these irregularities but did not restate any financial information it previously reported.

Violations

33. As a result of the conduct described above, Hedrick caused violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, which prohibit fraudulent conduct² in connection with the purchase or sale of securities.

34. As a result of the conduct described above, Hedrick violated Section 13(b)(5) of the Securities Act which prohibits the knowing falsification of any book, record, or account or circumvention of internal controls.

35. As a result of the conduct described above, Hedrick caused PCTEL's violations of Section 13(a) of the Exchange Act and rules 13a-11 and 12b-20 promulgated thereunder, which

² A knowing or reckless disregard of the truth is sufficient to establish the necessary scienter for a violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. *Aaron v. SEC*, 446 U.S. 680, 691 (1980).

collectively require issuers of securities registered pursuant to Section 12 of the Exchange Act to file with the Commission accurate current reports on Form 8-K that contain material information necessary to make the required statements made in the reports not misleading.

36. As a result of the conduct described above, Hedrick caused PCTEL's violation of Section 13(b)(2)(A) of the Exchange Act, which requires Section 12 registrants to make and keep books, records, and accounts that accurately and fairly reflect the transactions and dispositions of their assets.

37. As a result of the conduct described above, Hedrick violated Rule 13b2-1 of the Exchange Act, which prohibits the direct or indirect falsification of any book, record or account subject to Section 13(b)(2)(A) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Hedrick's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Hedrick cease and desist from committing or causing any violations and any future violations of Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(5) of the Exchange Act and Rules 10b-5, 12b-20, 13a-11, and 13b2-1 promulgated thereunder.

B. Hedrick shall pay disgorgement of \$25,000 and prejudgment interest of \$2,072.62 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). Payment shall be made in five equal installments within 10, 90, 180, 270, and 360 days of the entry of the Order. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement and prejudgment interest plus any additional interest accrued pursuant to SEC Rule of Practice 600 shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Michael Hedrick as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Paul Montoya, Assistant Regional Director, Chicago Regional Office, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, Illinois 60604.

C. Respondent acknowledges that the Commission is not imposing a civil penalty based upon his cooperation in a Commission investigation and his agreement to cooperate in any related enforcement action. If at any time following the entry of the Order, the Division of Enforcement (“Division”) obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay a civil money penalty. Respondent may contest by way of defense in any resulting administrative proceeding whether he knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

V.

IT IS FURTHER ORDERED that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary