

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 74626 / April 1, 2015

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3649 / April 1, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16471

In the Matter of

**TIMOTHY EDWIN
SCRONCE**

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 Timothy Edwin Scronce (“Scronce” 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 directed by Respondent, the owner 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.

Respondent

2. **Timothy Edwin Scronce**, age 49, is a resident of Winston-Salem, North Carolina. He was the majority owner and CEO of TelWorx Communications, LLC and controlled the day-to-day operations of TowerWorx, which were two of the TelWorx entities. After the sale of assets to PCTEL, Scronce became a Vice President of PCTEL and the general manager of PCTelWorx until he resigned on December 19, 2012. Previously, Respondent was the President and Chief Operating Officer of a publicly traded company.

Other Relevant Entities

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.

Background

5. In the first and second quarters of 2012, PCTEL and PCTelWorx negotiated with Respondent to acquire the assets of TelWorx. PCTEL and PCTelWorx relied, in part, on TelWorx's earnings before interest, taxes, depreciation, and amortization ("EBITDA") to determine the price it would pay to acquire the assets.

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.

6. Consequently, Respondent understood that artificially increasing TelWorx's earnings would benefit him by increasing TelWorx's purchase price.

7. In July of 2012, PCTEL and PCTelWorx acquired TelWorx's assets for a total of \$18 million, consisting of cash and an earn-out payment, based on PCTEL's 2013 financial performance and payable in PCTEL's common stock.

8. After the acquisition, Respondent operated and managed PCTelWorx similarly to the way he had operated and managed TelWorx.

9. In the third and fourth quarter of 2012, PCTEL's publicly-filed, consolidated financial statements included PCTelWorx's financial results, and Respondent was aware of this fact.

Revenue Forecasts

10. Prior to the acquisition, Respondent provided PCTEL and PCTelWorx with TelWorx's revenue forecasts for the second quarter of 2012.

11. After the acquisition, PCTEL received PCTelWorx's revenue forecasts from Respondent on a quarterly basis. Respondent knew that it was important to PCTEL's business that PCTelWorx meet or exceed the quarterly revenue forecasts he provided to PCTEL.

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

12. In April of 2012, Respondent directed TelWorx's controller (the "Controller") 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.

13. Subsequently, Respondent instructed the Controller to send TelWorx's accounting firm (the "Accountants") an email that falsely stated that the Modules were undervalued on TelWorx's general ledger and that the Controller had corrected this error.

14. In May of 2012, Respondent also directed the Controller to invoice certain customer orders before those orders had shipped, but to backdate the orders to the first quarter of 2012. The Controller generated invoices for these orders, which caused TelWorx to recognize revenue prematurely in its books and records in the first quarter of 2012.

15. Respondent then directed the Controller to provide TelWorx's income statements to the Accountants, which he did.

16. Respondent later directed the Controller to reverse these orders, thus reversing the revenue generated from these orders from TelWorx's books and records.

17. Near the end of the second quarter, PCTEL requested estimated second quarter revenue from TelWorx. Respondent instructed the Controller 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.

18. Respondent then directed the Controller to re-invoice several of the orders Respondent had previously instructed the Controller to invoice and reverse, causing TelWorx to recognize revenue for these orders prematurely a second time.

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

20. Respondent caused TelWorx to provide PCTEL with financial information that included these overstatements. These false accounting entries increased the purchase price which PCTEL paid for TelWorx.

21. Despite these false entries, TelWorx still did not meet the second quarter revenue forecast that Respondent had provided to PCTEL.

22. Shortly before the acquisition, PCTEL learned that TelWorx did not meet the second quarter 2012 revenue forecast. This revenue shortfall was due, in part, to a large order that a customer ("Customer A") had postponed until the third quarter of 2012.

PCTelWorx Recorded Revenue From Two False Transactions To Conceal The Pre-Acquisition Inventory Write-Up and Third Quarter Revenue Shortfall

23. 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 Respondent directed the Controller to inflate prior to the acquisition.

24. In order to conceal this fact from PCTEL, Respondent told the Controller that he planned to purchase the Modules himself.

25. Even though Respondent was the purchaser, he subsequently instructed the Controller 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 ("Vendor A"), as the purchaser.

26. Respondent also instructed the Controller to create an invoice for this false order. The Controller carried out Respondent's instructions, which caused PCTelWorx to record a false order in its books and records and to recognize revenue on the false order prematurely.

27. Respondent paid PCTelWorx's invoice to Vendor A but concealed from PCTEL the fact that he had purchased the Modules himself. PCTelWorx never shipped the Modules to Vendor A.

28. Towards the end of the third quarter of 2012, Respondent realized that even with the revenue from Vendor A's false order, PCTelWorx still would not meet the quarterly revenue forecast he had provided to PCTEL.

29. Respondent also knew that PCTelWorx still had not received the large order from Customer A that he had forecast for the third quarter. So Respondent decided to improperly use an intermediate purchaser for Customer A's anticipated order to conceal the revenue forecast shortfall.

30. Respondent proposed that the intermediate purchaser eventually would resell the products to Customer A at a profit. Respondent planned to offer the intermediate purchaser extended payment terms so that it could collect the full purchase price from Customer A before having to pay PCTelWorx's invoice.

31. Respondent identified a vendor that provided services to – but that had not previously purchased a large order from – PCTelWorx (“Vendor B”) as a potential intermediate purchaser.

32. Respondent instructed PCTelWorx's Vice President of Sales and Tech Services (the “Vice President”) to ask Vendor B if it would act as the intermediate purchaser for this order.

33. The Vice President followed Respondent's direction and obtained a purchase order from Vendor B with the same terms as the order that PCTelWorx expected eventually to receive from Customer A.

34. Using the purchase order obtained by the Vice President, Respondent instructed a PCTelWorx employee (“Employee A”) to record Vendor B's order in PCTelWorx's books and records and to indicate that the order had been shipped to Vendor B and that Vendor B had been invoiced. These actions resulted in improper, premature revenue recognition in PCTelWorx's books and records during the third quarter.

35. PCTelWorx never shipped the products listed on the false order to Vendor B, nor did it send Vendor B the invoice for the false order.

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

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

37. In order to conceal the fact that Vendor A's order was false, Respondent instructed the Controller to request certain records for Vendor A's order by email from a PCTelWorx employee (“Employee B”). The Controller sent the email as Respondent instructed. However, Respondent knew that the records described in that email did not exist.

38. Respondent then created several false records concerning Vendor A's order that PCTEL had requested. He provided these records to Employee B, and instructed Employee B to email the records and other false information concerning Vendor A's order to the Controller, who then provided the false information and documents to PCTEL.

39. Midway through the fourth quarter, Customer A still had not placed the order with PCTelWorx as expected by Respondent. In addition, PCTelWorx's books and records indicated that Vendor B's payment for the order was due and unpaid. Respondent became concerned that PCTEL would attempt to collect on the overdue invoice to Vendor B, detect the false order in its books and records and determine that PCTelWorx had recognized revenue prematurely in the third quarter.

40. Respondent decided to conceal from PCTEL the false third quarter order from Vendor B by reversing it from PCTelWorx's books and records and recording a new false transaction that matched an actual purchase order from another PCTelWorx customer ("Customer B"). According to Respondent's plan, Customer B's order would be cancelled on PCTelWorx's books, but Customer B would pay for the order placed by Vendor B.

41. Respondent instructed the Vice President to obtain a revised, false purchase order from Vendor B that was identical to the order that PCTelWorx had received from Customer B.

42. Respondent and the Vice President, at Respondent's direction, then instructed Employee A to cancel Customer B's order and to reverse Vendor B's false order from the third quarter in PCTelWorx's books and records. Respondent and the Vice President, at Respondent's direction, also instructed Employee A to enter Vendor B's revised, false purchase order into PCTelWorx's books and records.

43. Ultimately, the items supposedly ordered by Vendor B pursuant to the revised, false purchase order were shipped to – and paid for – by Customer B.

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

44. PCTEL informed Respondent that it was required to file with the Commission pro forma financial statements that included financial information for both PCTEL and TelWorx as if PCTEL had owned TelWorx for the first two quarters of 2012 and that it had retained the Accountants to prepare compilations of TelWorx's financial statements. Respondent agreed to release TelWorx's compiled financial statements to PCTEL for filing with the Commission.

45. 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.

46. The Form 8-K/A materially overstated revenue on TelWorx's financial statements due to the false accounting entries made, at Respondent's direction.

47. On March 13, 2013, PCTEL issued a Form 8-K/A disclosing these irregularities.

PCTEL Confronts Scronce With The False Entries in TelWorx's And PCTelWorx's Books and Records

48. Notwithstanding Respondent's efforts to conceal from PCTEL the false entries in TelWorx's books and records and the false entries in PCTelWorx's books and records, PCTEL discovered the false entries.

49. PCTEL confronted Respondent about one of the false purchase orders and, shortly thereafter, Respondent resigned his position with PCTelWorx.

50. PCTEL and Respondent subsequently entered into a settlement agreement pursuant to which Respondent paid PCTEL a total of \$4.75 million, \$3.2 million of which represented the return of a portion of the purchase price PCTEL paid for TelWorx's assets, and gave up the right to receive any stock earn-out payments.

Violations

51. As a result of the conduct described above, Respondent violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder which prohibit fraudulent conduct in connection with the purchase or sale of securities.

52. As a result of the conduct described above, Respondent acted through or by means of another person to violate Section 20(b) and 10(b) of the Exchange Act, and Rule 10b-5 thereunder. Section 20(b) of the Exchange Act makes it unlawful for any person, directly or indirectly, to do an act or thing which it would be unlawful for such person to do under the Exchange Act or any rule or regulation thereunder through or by means of any other person.

53. As a result of the conduct described above, Respondent 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.

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

55. As a result of the conduct described above, Respondent 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.

56. As a result of the conduct described above, Respondent 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 Respondent's Offer.

Accordingly, it is hereby ORDERED that:

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

B. Respondent Scronce be, and hereby is, prohibited, for ten years following the date of the entry of this Order, from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

C. Respondent shall, within 10 days of the entry of this Order, pay disgorgement of \$376,007, prejudgment interest of \$29,212.47, and a civil money penalty in the amount of \$140,000 to the Securities and Exchange Commission for transfer to the general fund of United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 or to 31 U.S.C. 3717. 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 Timothy Edwin Scronce 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.

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