

PCTEL Q3 2011 FINANCIAL RESULTS CONFERENCE CALL

October 26, 2011

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL third quarter 2011 conference call. At this time, all participants are in a listen-only mode. Later, we will open up the call for your questions. Instructions for queuing up will be provided at that time. As a reminder, this conference call is being recorded for replay purposes.

I will now turn the call over to John Schoen, Chief Financial Officer.

JOHN SCHOEN:

Thank you for joining us today, October 26, 2011, for the PCTEL financial results conference call for the third quarter 2011. On today's call will be Marty Singer, Chairman and CEO and myself, John Schoen, Chief Financial Officer.

Safe Harbor Statement

Before we begin, I would like to read our safe harbor statement. Today's call will contain "forward-looking statements" within the meaning of the federal

securities laws. Comments concerning our future financial performance, new products and product development, and expectations regarding the future growth of our wireless RF business, are forward-looking statements within the meaning of the safe harbor. Actual results may differ materially from those projected as a result of risks and uncertainties, including the ability to successfully grow our wireless products business, implement new technologies and obtain protection for the related IP. Additional discussion of these and other factors affecting the company's business and prospects is contained in our periodic SEC filings. These statements are made only as of today and we disclaim any obligation to update information to reflect subsequent events.

I would now like to turn the conference call over to Marty Singer.

MARTY SINGER:

Thank you, John, and good afternoon.

For those of you who have not had a chance to read our press release, I'd like to recap some of the Non-GAAP highlights from the quarter:

- We achieved revenue of \$19.5 million, an increase of 13 percent over the third quarter 2010.
- Non-GAAP Gross Profit Margin was 48 percent.
- Non-GAAP Operating Margin was 10 percent
- Non-GAAP Net Income was \$1.8 million, or \$0.10 per diluted share
- Cash and investments were \$68.6 million.

Now I'd like to turn the call back over to John Schoen who will discuss our financial performance in some detail.

John?

JOHN SCHOEN:

Thank you Marty.

Company to Amend 10-Q Filings for Q1'11 & Q2'11

Before I provide a detailed review of the past quarter, I want to address the restatement of GAAP earnings for Q1 and Q2 of this year that we disclosed in our earnings press release. We intend to amend the first and second quarters of 2011 on Form 10-Q/A to correct an accounting misstatement of share-based compensation recorded in those quarters related to the PCTEL Secure joint venture with Eclipse Design Technologies, Inc. The Company's revenue, cash flow and Non-GAAP earnings are unaffected. The effect on GAAP loss available to common shareholders in the first quarter is that it should be \$(682,000) instead of the \$(1,285,000) reported. In other words, the Company lost \$603,000 less on a GAAP basis than previously reported. The effect on GAAP loss available to common shareholders in the second quarter is that it should be \$(68,000) instead of the \$(81,000) reported, or a \$(13,000) smaller loss. First quarter 2011 GAAP EPS should be a net loss of \$(0.04) instead of the \$(0.07) reported, or \$0.03 greater. Second quarter 2011 GAAP EPS did not change from the \$(0.00) reported. The June year to date effect is that reported GAAP earnings per share increased \$0.03. These adjustments are related to the timing of expenses for stock-based

compensation for non-employees working on the PCTEL Secure joint venture program.

The Company expects to amend its filings on Form 10-Q/A for the first and second quarters reflecting these changes as soon as practicable. The involvement of the second quarter in a 10-Q/A is primarily to correct the year to date information presented, as the impact on the quarter itself is immaterial. The Company is still evaluating the level of internal control deficiency that the misstatements represents and expects to report on its conclusion in the third quarter 10-Q and 10-Q/A's for Q1 and Q2. The year to date GAAP information in the condensed consolidated financial statements contained in this press release reflect the revisions.

Now, let me return to a discussion of the quarter.

GAAP versus Non-GAAP Financial Statements

Our investors will note that the company presents Non-GAAP financial information in its earnings releases. The company believes that presentation of gross profit, operating profit, and net income excluding restructuring charges and non-cash based expense including stock and stock option based

compensation, amortization and impairment of intangible assets and goodwill related to the company's acquisitions, gains or losses on the sale of product lines and related note receivable, and non cash based income tax expense provide meaningful supplemental information to both management and investors. The Non-GAAP financial analysis reflects the Company's core results and facilitates comparisons across reporting periods. For more information on our Non-GAAP financial results and reconciliation to GAAP measures, please refer to our earnings release that has been filed under Form 8-K with the SEC. The release can also be found on our website at www.pctel.com under "Investor Relations". My discussion of results will be based on our Non-GAAP financial results.

Revenue

Third quarter 2011 revenue was \$19.5 million. This compares to \$17.3 million in the third quarter of 2010, an increase of 13 percent. Scanning receiver revenue growth is attributed to the company's introduction of its MX scanner earlier this year. Antenna revenues were largely unchanged.

Gross Profit Margin

Non-GAAP gross profit margin for the third quarter was 48 percent, an increase of seven percent from the same period last year. Compared to the same period last year gross profit margin improved in both antenna and scanning products. The revenue mix of scanners, with their higher gross margin in relation to antenna products, also contributed to the increase.

Operating Expenses

Now let's turn to Non-GAAP operating expenses, which were \$7.5 million in the quarter, an increase of approximately \$700,000 from the same period last year. The increase is attributed to \$200,000 for the Company's ERP system implementation and \$500,000 largely comprised of higher variable compensation related to higher year over year revenue and earnings. Within R&D, the Company shifted approximately \$350,000 of spending compared to the same period last year from scanning receivers to PCTEL Secure.

Non-GAAP Operating Income

Non-GAAP operating income in the third quarter was \$1.9 million, or 10 percent of revenue, compared to \$300,000, or 2 percent of revenue in the same period in 2010. The increase in dollars and percent of revenue for the

quarter is reflective of higher gross margin dollars on higher revenue and improved gross margin percent, partially offset by higher operating costs.

Other Income (Expense)

Non-GAAP other income was \$33,000 in the third quarter versus \$77,000 in the same period last year.

Non-GAAP Income Taxes

The Non-GAAP income tax rate in the quarter and the year was 18 percent, unchanged from 2010.

Non-GAAP Earnings

Non-GAAP net income for the third quarter was \$0.10 per share compared to \$0.02 per share in the same period last year. The increase in the quarter is attributed to higher operating profit, partially offset by lower interest income. The cost of the Company's ERP project and its investment in PCTEL Secure net of minority interest was \$0.02 per share in the quarter, and \$0.05 per share year to date.

Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the quarter at \$68.6 million; about \$400,000 more than last quarter. Approximately \$5.4 million is classified as long-term investment securities.

In the quarter, the company generated approximately \$ 3.1 million of cash from operations, as compared to generating \$1.4 million in the same period last year. Capital expenditures were \$715,000, as compared to \$511,000 in the same period last year. The company repurchased approximately 363,000 shares during the quarter for approximately \$2.3 million.

Income Statement Guidance Q4 2011

Now I would like to discuss guidance for the fourth quarter 2011.

We anticipate revenue in the fourth quarter to be in a range of \$19.7 to 20.0 million, which includes about \$400,000 of engineering services revenue related to our Envision Wireless acquisition.

Non-GAAP gross profit margin is expected to be about 48%.

Non-GAAP operating costs are expected to be about \$7.5 million, unchanged from the quarter just ended.

Other income is expected to be \$35,000 and the credit for the elimination of non-controlling interest in PCTEL Secure is expected to grow to \$200,000.

The Non-GAAP effective income tax rate is expected to remain unchanged going forward at 18 percent.

The fully diluted share count in the quarter is expected to be about 17.6 million shares.

That concludes the financial review. I would like to turn the call over to Marty for his summary comments.

MARTY SINGER:

Thank you, John.

Our results reflect a company that continues to make steady progress in all four of the success factors that we outlined earlier this year: gross margin, particularly in our antenna product line, the successful launch of our new

SeeGull MX scanning receiver, development of our vertical markets, and the return of our scanning receiver development expenses to sustainable levels. One example is worth explaining at length. As we discussed last year at this time, our annualized scanning receiver development expenses had grown to \$7.5 million. We explained to investors that this investment was necessary to bring our new MX product to market. This scanning receiver now sets the standard in the test and measurement industry. We committed to investors that we would normalize those expenses and that we would return to an annualized run rate of about \$5 million in that product line. I am pleased to report that we are on track to accomplish that goal and that our strong earnings reflect that progress.

Our progress on antenna gross margin has been similarly important to our improved results. In broad terms, a product line that generates \$50 million per year at 30% gross margin has \$35 million in COGS. We targeted this COGS as an area that we could improve upon by transitioning certain products to Tianjin, improving our supply chain operation, holding our outsourced manufacturers to a higher standard, and streamlining operations. While we do not provide quarterly updates on gross margin by product line, we anticipate a 2 percent gross margin improvement in our antenna product

line for the year. This is still dependent on our success in transitioning certain products to Tianjin and to higher-performance outsourced manufacturers. Having just returned from an 8 day trip in China, visiting both our facilities and customers, I am extremely confident in our long-term operational strategy.

The MX has been an unqualified success and this past quarter we sold significant volume. We had our strongest quarter with Ascom and Huawei has taken our scanning receivers into three new regions – Canada, Australia, and Africa. We are building upon this success. We have already implemented TD-LTE on our SeeGull EX – and sold our first unit – and we are going to release the TD-LTE on the MX early in 2012. Our scanning receiver development group has been extraordinarily productive and we will be perfectly positioned to participate in the TD-LTE market in China and the eventual deployment of LTE in Europe. Our enormous investment in the SeeGull MX will yield significant return to PCTEL and its investors. In the past quarter, we released an MX that now supports five technologies, our newly designed SeeHawk software that supports TD-LTE, WCDMA Blindscan, and post-processing.

One of our important vertical markets is Offloading. We've discussed this market at several previous conference calls and investor presentations. This past quarter, we released a customized design – a Stadium Array – for our WiFi antenna solutions for arenas. These antennas are designed for ease of manufacturing and are exceptionally rugged. We also released two new antennas – one for Harris and one for Northrop Grumman – to support our growth in defense markets. One specific product, an Omni-directional antenna is part of the Counter-Rocket, Artillery and Mortars (C-RAM) system that integrates existing field artillery and air defense sensors. It is a commercial off-the-shelf warning system and a U.S. Navy-developed interceptor to protect U.S. and coalition personnel from the indirect fire threat in Iraq. The system has responded to RAM attacks by intercepting and destroying incoming rounds. It also has a capability that contributes to counterattacks and response options such as tracking and apprehending the enemy forces. According to government sources, C-RAM is deployed and operational and has saved lives and reduced casualties with no system failures since deployment. We are extremely excited about our design for manufacture of this product, the product's ruggedness, and its crucial role in this system.

We have had other significant vertical market wins, each involving new or customized antennas. These projects include our new BOA Omni antenna – sold with Tescos – at Norfolk Southern Railroad; Five new infrastructure antennas for Cisco’s Smart Grid customers; a new Smooth Wave Dual-Band Wi-Fi antenna for Motorola’s Symbol based systems, and a family of LTE antennas used with LTE Pico radios at 700MHz, 2.5Ghz, 5.0Ghz, and GPS spectrum. Let me add that we are establishing traction in China, with major customers, with our in-building and other antenna solutions.

We are also pleased to provide our investors an update on PCTEL Secure. We achieved a critical milestone this month. On October 14th, as committed, we demonstrated the effectiveness of the PCTEL Secure’s ProsettaCore™ in preventing an “exploit” from undermining the integrity of an Android-based smart phone. The demonstration enabled or disabled the ProsettaCore security system on an Android-based phone. When enabled, viruses – or exploits – could not steal pictures, record conversations, or take files. When disabled, the exploit turned the phone into a “spy phone.” We could turn the microphone on and off at will, take all email attachments, and siphon off any pictures taken with the phone’s camera. The demonstration utilized a Foxconn Android phone but could be applied to any Android-based phone.

Our next step is to prepare a licensing package for the many potential customers with whom we have already met to describe our work. We have been actively developing the business for this product and for the underlying intellectual property – we now have three patent disclosures. We are also hopeful that other industry players – particularly in the secure space – will be interested in our solution as they turn their attention to mobile device security.

As we announced recently, Major General (Retired) Michael Davidson recently joined our board. His deep connections to the military and defense systems integrators have been helpful in shaping our approach to the secure market. We have also asked him to review our strategy for expanding our antenna and scanning receiver business with defense and government entities. It is helpful that General Davidson is the co-founder of CRA, Inc., a Washington-based homeland security and defense company.

We continue to explore a variety of acquisition possibilities. We have three areas of focus: in-building products, design services and tools; ancillary RF products; and assets that would expand our distribution channels. We are

actively engaged in this process and we remain committed to acquisitions at competitive values.

In this context, we are pleased to have announced the acquisition of the assets of Envision Wireless, Inc. for \$1.45 million in cash – a company that meets many of our criteria for acquisitions. Envision, which is a company that grew out of Safco Technologies where Jeff, John, and I all worked, focuses on in-building network design. They perform sophisticated analyses of collected data and propose specific network design solutions for various environments. We expect Envision to generate over \$2 million in design services sales and we believe that this new activity area will create demand for both our in-building antenna solutions and the in-building test and measurement capabilities of our scanning receivers. This new organization – Network Engineering Services - will report directly to Jeff Miller and will interact closely with both of our product groups.

Finally, I would like to comment on our decision to pay a regular, quarterly dividend. As most of our long-term investors know, PCTEL has bought back over 8 million shares of its stock over the past 9 years. Over the long term, we believe that this investment will be positive for our investors.

Even with this considerable investment and the one-time dividend that we paid in 2008 and several small acquisitions, we still have \$68 million in cash with no debt. We continue to generate cash and we have sufficient reserves to fund our current operation and to finance reasonably-priced, mid-size acquisitions. In short, PCTEL management is confident that we have sufficient resources to fund organic growth and growth through acquisition and, at the same time, provide an immediate return to our shareholders.

We will not be attending TechAmerica this year. Instead, we will be out in front of investors and customers throughout November and early December. We have a booth presence at 4G Wireless this week in Chicago. We will also be attending MILCOM in Baltimore and LTE North America in Dallas next month. Additionally, we will be in New York City to open Nasdaq with an Illinois delegation led by Governor Quinn and TechAmerica on November 15 and we will be available to meet with investors later that day. We hope to see you at one of these events.

With that, I will turn the call back to the operator. We have allocated 30 minutes for your questions.

Operator?

[Q&A SESSION]

[CLOSING REMARKS]