

PCTEL Q3 2009 FINANCIAL RESULTS CONFERENCE CALL

October 29, 2009

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL third quarter 2009 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 Jack Seller, Director of Marketing.

JACK SELLER:

Thank you for joining us today, October 29, 2009, for the PCTEL financial results conference call for the third quarter 2009. On today's call will be Marty Singer, Chairman and CEO and John Schoen, Chief Financial Officer.

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, Jack, 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 on a continuing operations basis:

- We achieved revenue of \$13.7 million
- Non-GAAP Gross Profit Margin was 47%
- Non-GAAP Operating Margin was 3%
- Non-GAAP Net income was \$669,000, or \$0.04 per diluted share
- Cash and investments were \$78 million

Economic conditions remain challenging worldwide, but we are pleased that our early actions – and our continued attention to costs – have enabled us to remain profitable on a non-GAAP basis. In this process, we have lowered our non-GAAP break-even point to \$13 million of revenue per quarter.

Now I'd like to turn the call over to John Schoen, our CFO, who will discuss our financial performance in some detail. Later, I will comment on our progress over the past quarter and what we see in the future. John?

JOHN SCHOEN:

Thank you Marty, and good afternoon, or evening, to everyone.

Company to Amend 10-Q Filings for Q1'09 & Q2'09

The Company disclosed in its earnings press release that we intend to amend the first and second quarter 2009 on Form 10-Q/A to correct misstatements primarily related to business combination goodwill and tax issues of our January 2009 purchase of Wi-Sys Communications. I want to take a minute to discuss the changes that will be filed. The company's revenue, cash flow and non-GAAP earnings are unaffected. In the first quarter the goodwill impairment expense should be \$222,000 higher than reported and income tax expense should be \$127,000 higher than reported for a total change of \$349,000. In the second quarter, income tax expense should be \$274,000 lower than reported.

The affect on GAAP net loss on the periods is: the first quarter net loss should be \$(1.9) million instead of the \$(1.5) million reported, or a \$(374,000) greater loss; the second quarter net loss should be \$(1.3) million instead of the \$(1.6) million reported, or \$274,000 less of a loss; the Q2 year to date net loss should be \$(3.2) million instead of the \$(3.1) million reported, or a \$(75,000) greater loss.

The affect on GAAP EPS on the periods is: Q1 2009 EPS should be net loss of \$(0.11) instead of the \$(0.09) reported, or \$(0.02) lower; Q2 2009 GAAP EPS should be a net loss of (\$0.07) instead of the \$(0.09) reported, or \$0.02 less of a loss; and GAAP Q2 year to date EPS is unchanged at \$(0.17), as reported.

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 company is still evaluating the level of internal control deficiency that the misstatements represent and expects to report on its conclusion in the third quarter 10-Q and 10-Q/A's for Q1 and Q2.

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.

Sale of MSG

As a reminder, the company sold its Mobility Solutions software group, or MSG, to Smith Micro in January 2008. The company's financial statements have been revised to reflect MSG as a discontinued operation. My discussion of financial results will address continuing operations.

Revenue

Third quarter 2009 revenue from continuing operations was \$13.7 million. This compares to \$20.1 million in the third quarter of 2008, a decrease of 32%, but an increase from the \$13.4 million in revenue reported last quarter. Revenue was lower for both scanning receivers and antenna products on a year over year basis, although antenna revenue was up from the second quarter of this year. We believe that reduced scanning receiver revenue reflected several factors: (1) as carriers prepare for the transition from EVDO to LTE, network engineers are protecting

their reduced capital budgets and waiting for new technology rollout before consuming their budgets; and (2) while test tools enable network engineers to realize greater capacity from existing infrastructure, capital budgets are lower worldwide. Antenna revenue declined on a year over year basis in both the OEM and Distribution channels, reflecting particular softness in land mobile radio systems, continued delays in mobile WiMAX rollout, and defense related antenna sales.

Gross Profit Margin

Non-GAAP gross profit margin from continuing operations for the third quarter was 47 percent, compared to 48 percent in the same period last year. The lower gross profit margin reflects the cost of lower overall volume over fixed costs.

Operating Expenses

Now let's turn to non-GAAP operating expenses, which were \$6.1 million in the quarter. Reduction of SG&A expenses resulted in an over all decline in operating expenses by \$0.9 million as compared to the third quarter last year. Our R&D expense was about \$100,000 higher. We continue to invest in our future through R&D spending as we align our cost structure with current revenue levels. The reduction in SG&A was achieved through the closure of several unproductive sales

offices, the restructuring of our antenna manufacturer's representative sales channel, and corporate cost efficiencies.

The Conexant royalty agreement was fully paid up in the second quarter 2009, and is therefore zero this quarter. It was \$200,000 in the third quarter last year.

Non-GAAP Operating Income

Non-GAAP operating income from continuing operations in the third quarter was \$440,000, or 3 percent of revenue, compared to \$2.9 million, or 15 percent of revenue in the same period last year. The results reflect lower gross profit dollars on lower revenue, partially offset by lower operating costs.

Other Income (Expense)

Other income was \$375,000. The results include a realized mark to market gain of \$230,000 on our Columbia fund investment related to the liquidation of about 67% of our balance in that fund during the quarter.

Non-GAAP Income Taxes

The non-GAAP income tax rate in the quarter was 18%.

Non-GAAP Earnings

Non-GAAP net income from continuing operations for the third quarter 2009 was \$669,000, or \$0.04 per diluted share, compared to non-GAAP net income of \$2.6 million, or \$0.14 per diluted share in the third quarter of 2008. To summarize the differences, net income from continuing operations was lower from decreased gross profit on lower revenue partially offset by lower operating costs.

Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the quarter at \$78 million; \$1 million lower than last quarter. Approximately \$10 million is classified as long term investment securities.

The company spent approximately \$935,000 on the repurchase of 153,000 of its common shares during the quarter at an average purchase price of \$6.12 per share.

Of the roughly \$78 million in cash and investments on hand at the end of third quarter, the company had approximately \$1 million in operating bank accounts; \$54 million in U.S. Federal Government Agency securities, either directly owned or through AAA money market funds invested exclusively in them; \$19 million in tax exempt pre-refunded municipal notes which are backed by US Treasury securities held in escrow; \$2 million in AAA corporate notes; and \$2 million in the

Columbia Strategic Cash Portfolio Fund, an enhanced cash money market fund.

The Columbia fund is in the process of liquidation. We expect the next liquidation payment from the Columbia fund in December 2009 or January 2010.

In the quarter, cash flow from operations was approximately \$400,000, with capital expenditures of \$484,000.

Income Statement Guidance Q4 2009

Now I would like to discuss guidance for the fourth quarter 2009. Marty will address limited revenue guidance for 2010 in his remarks.

We anticipate revenue for the fourth quarter to be in a range of \$14.0 to \$14.4 million. The company is seeing order booking rates in October that are slightly higher than that experienced in the quarter just ended.

Non-GAAP gross profit percent for the fourth quarter is expected to be in a range of 46 to 48 percent, about the same as the third quarter.

Non-GAAP R&D and SG&A from continuing operations are expected to be about \$200,000 higher than the third quarter, evenly split between R&D and sales and marketing.

Other income is expected to range between \$100,000 and \$200,000 in the fourth quarter. We are not expecting any mark to market gains or losses in the quarter.

The non-GAAP effective income tax rate is expected to remain unchanged in the fourth quarter at 18 percent.

The diluted share count in the fourth quarter is expected to be about the same as the third quarter at 17.6 million shares, before any potential stock buy backs. The diluted share count was slightly higher in the third quarter than the second due to the affect of a higher stock price on our accounting for unvested employee equity.

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

MARTY SINGER:

Thank you John.

It has been an extremely active quarter for us. We have continued to rationalize our overall business operations, sharpened our focus on key vertical markets in our high-value Antenna Group, and enhanced our strategic position within the RF Scanner Group for emerging technologies. Further, we met with new and potential customers at five (5) trade shows around the world that were important to PCTEL's future growth.

In addition, we bought back 153,000 shares of PCTEL stock as John mentioned, bringing our three-year total to 5.0 million shares and our eight year total to 7.3 million shares. We continue to evaluate assets for potential acquisition in both business areas and ones that are relevant to both businesses.

Given our increase in sequential booking activity for the fourth quarter to date, we think that our operational and business development efforts are beginning to result in additional opportunities and sales. We were pleased to see a sequential quarter increase in antenna revenue and anticipate that it will improve sequentially again in the fourth quarter. We are experiencing modest growth despite a sharp decline in public safety spending. As you may be aware, the state and local budgets cannot accommodate meaningful spending on the communications networks. Even approved projects have not been built out. Jeff Miller, who heads our Antenna

Products Group, or APG as we refer to it, has responded to this slowdown by focusing on important vertical markets that have exciting growth prospects. As we discussed last quarter, these vertical markets include SCADA, Machine to Machine Communication, Utilities and Smart Grid, Precision Agriculture, and Defense or Military. In just the last quarter alone, John Deere selected PCTEL to provide three new 400 MHz antennas for precision agriculture, Raytheon awarded us a contract in India for WAAS antennas used in aviation navigation, NEC awarded us a contract for WAAS antennas for similar applications in Japan. In the land mobile radio segment of our antenna business, Motorola awarded us the business for three new antennas for their fleet management and communication applications.

We have organized around our interest in these vertical markets and we plan to hire 3-4 more business development and sales personnel by the end of the year as we increase our investment in a more aggressive marketing approach. We believe that these investments will benefit shareholders as our revenues renew their year over year growth in mid 2010.

Operationally, we have extended our LEAN manufacturing initiative in our Bloomingdale facility and now deliver roughly 70 percent of our APG revenue from LEAN work cells. We have realized added benefits in reduced order cycle

time, delivered quality, and reduced floor space. As a final operational note for APG, we successfully completed our ISO 9001 audit and upgraded the registration of our Quality system to the latest published revision.

With respect to our RF Scanner Group, or RFSG, we continue to demonstrate technology leadership and we remain confident that our OEM and direct sales of our scanning receivers will benefit over the next several quarters from our investment in LTE, TDS-CDMA, combinations of technologies in a single unit, and our leading edge form factor. Two important RFSG orders – one direct and one indirect - moved out to the fourth and first quarter respectively. We anticipate RFSG revenue will be up sequentially in the fourth quarter.

Despite short-term challenges related to decreases in CAPEX spending, RFSG continues to strategically position itself to capitalize on market growth that the new LTE standard will drive. PCTEL's new LTE scanning receivers are now in use or selected for use by the main wireless operators and infrastructure providers in the United States. For one such operator, we have completed the first phase of development with a comprehensive portfolio of LTE scanning receivers that support the entire range of designated domestic and international frequency bands. Furthermore, RFSG is now focused on the second development phase that will

enable the addition of other key advanced features to the LTE family of scanning receivers. PCTEL's intention is to lead the industry in the delivery of extremely capable and competitively-priced LTE scanning receivers and we believe that we are well on our way.

In spite of the widespread economic downturn, RFSG closed several Clarify orders with subsidiaries of the two main operators in the Caribbean and Latin American Market, or CALA region. More broadly, we have sold Clarify into Colombia, Chile, Panama, and to Telefonica in Argentina and Mexico.

As mentioned earlier in the year, the Asia Pacific region is the only major geographic area in the world that has not experienced a substantial decline in 2009. RFSG has established commercial relationships with two more OEMs in Korea and China and has launched a small number of products specifically targeted for cost driven markets. We expect more news on our sales channels and OEM partners in China over the next 3 to 6 months, and look forward to updating you on our success in capturing significant customers in that region.

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With respect to our existing, core business we have released a new low-cost PCT-

Series scanning receiver to selected customers and we formally launched the Next Generation Scanning Receiver platform that achieves several performance breakthroughs. We believe our LTE scanning receivers have now captured 50 percent share with Verizon, the major U.S. operator deploying that technology, and we are actively involved with AT&T's RFP process. We continue to invest heavily in this product line with respect to both product development and business development.

In RFSG, just as we have in other parts of the company, our General Manager, Luis Rugeles, has worked hard to realize greater efficiencies in his operation. He has continued to drive down costs through a competitive bid process with various contract manufacturers and he has consolidated Program and Product Management under a single executive. He also streamlined our development process that enables PCTEL to maintain its effective R&D investment in scanning receivers.

Summary

Despite the worldwide recession, PCTEL has maintained and increased slightly its revenue and earnings this past quarter. On a non-GAAP basis, we have maintained profitability and we have aggressively funded our new product development. We

are pleased with the performance of our recent acquisitions and believe that we have carefully managed our expenses over the past several quarters.

As we have indicated, we want to be out in front of the overall industry recovery that we believe will occur in mid-2010. Just as we were out in front with our aggressive cost reductions, we have concluded that it is now appropriate to invest more in business development. While this will constrain earnings in the fourth quarter of this year and the first quarter of 2010, we are confident that the investment will accelerate our return to higher revenue levels. In 2010, we anticipate 10-15 percent year over year revenue growth beginning with the second or third quarter comparables.

On the acquisition front, we are actively looking at various opportunities that would expand our market prospects in both of our business areas. However as we have in the past, we will only announce acquisitions as they occur.

We have set aside 30 minutes for your questions. Operator?

[Q&A SESSION]

[CLOSING REMARKS]

Thank you all for joining us on this call and web cast. We are planning to attend the TechAmerica AeA Classic in San Diego on November 3. We look forward to seeing many of you at that event and in the coming months.