

PCTEL Q2 2010 FINANCIAL RESULTS CONFERENCE CALL

July 26, 2010

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL second quarter 2010 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, July 26, 2010, for the PCTEL financial results conference call for the second quarter 2010. 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 morning.

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 \$17.8 million, an increase of 33 percent over second quarter 2009.
- Non-GAAP Gross Profit Margin was 46 percent
- Non-GAAP Operating Margin was 6 percent
- Non-GAAP Net income was \$1.0 million, or \$0.06 per diluted share, tripling earnings per share from second quarter 2009
- Cash and investments were \$72.8 million. We generated \$1.6 million of cash and investments before buying back over 200,000 shares for \$1.3 million during the 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 some of our business development, engineering, and marketing efforts over the past quarter as well as some of our current activities.

John?

JOHN SCHOEN:

Thank you Marty, and good morning to everyone.

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

Second quarter 2010 revenue was \$17.8 million. This compares to \$13.4 million in the second quarter of 2009, an increase of 33 percent. The improved sales reflected stronger LMR, GPS, and WiMAX volume in our targeted vertical markets for antenna products. Antenna sales improved to both our large distributors and to OEM resellers of our antennas. Scanning receiver revenue saw improved sales through its OEM test and measurement resellers, such as Ascom, Anite, and Swissqual.

Gross Profit Margin

Non-GAAP gross profit margin for the second quarter was 46 percent, unchanged from the same period last year. Margins for scanning receiver products were comparable to the same period last year while antenna margins improved as the company leveraged fixed costs over greater revenue. Increasing gross margin for our antenna product line has become essential as antennas become a higher percentage of our aggregate revenue.

Operating Expenses

Now let's turn to non-GAAP operating expenses, which were \$7.1 million in the quarter, an increase of \$1.1 million from the same period last year. R&D increased

approximately \$400,000, related to investments in scanning receiver development, approximately half of which is related to the acquisition of the Ascom scanning receiver business. The \$700,000 increase in SG&A expense reflected the investment in ongoing Sparco sales operations, our investments in reaching specific markets, our participation in two major industry conferences, and an increase in commissions & variable compensation related to higher revenue and profits.

The Conexant royalty agreement was fully paid up in the second quarter 2009. It will drop out of our year over year quarterly comparisons going forward.

Non-GAAP Operating Income

Non-GAAP operating income in the second quarter was \$1.1 million, or 6 percent of revenue, compared to \$300,000, or 2 percent of revenue in the same period in 2009. The results reflect a net increase of \$800,000 from higher gross profit on higher revenue netted with a smaller increase in operating costs.

Other Income (Expense)

Other income was \$87,000 versus \$201,000 in the same period last year, reflecting lower interest rates.

Non-GAAP Income Taxes

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

Non-GAAP Earnings

Non-GAAP net income for the second quarter 2010 was \$1.0 million or \$0.06 per diluted share, compared to non-GAAP net income of \$414,000, or \$0.02 per diluted share in the second quarter of 2009, the difference coming from the change in operating profit previously discussed.

Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the quarter at approximately \$73 million, approximately the same as last quarter. Approximately \$4 million is classified as long-term investment securities.

Of the roughly \$73 million in cash and investments on hand at the end of second quarter, the company had approximately \$1 million in operating bank accounts; \$49 million in U.S. Federal Government Agency securities, either directly owned or through AAA money market funds invested exclusively in them; \$15 million in tax exempt pre-refunded municipal notes which are backed by US Treasury securities held in escrow; and \$8 million in AA corporate bonds or A-1/P-1 corporate notes.

In the quarter, the company generated approximately \$ 1.8 million of cash flow from operations, with capital expenditures of \$222,000. The company also repurchased approximately 215,000 of its common shares for \$1.3 million at an average price \$6.04. The company has approximately \$1.2 million available under its current share repurchase authorization.

Income Statement Guidance Q3 2010

Now I would like to discuss guidance for the third quarter 2010.

We anticipate approximately 30 percent growth in third quarter revenue compared to the same period last year, at between \$17.8 and 18.2 million. This reflects organic revenue growth in both antenna and scanning receiver products as well as

growth related to our recent acquisitions. We also are guiding to a higher annual revenue target for 2010. We initially forecasted \$64 million in revenue. Based on the first two quarters and our range of \$17.8 to \$18.2 million in the third quarter, we believe that we have the opportunity to generate \$67-70 million in 2010.

Non-GAAP gross profit percent for the third quarter is expected to be in a range of 46 – 47 percent, about the same as the quarter just ended.

Non-GAAP R&D and SG&A in the third quarter are expected to be about \$100,000 to \$150,000 lower than the second quarter, or approximately \$7.0 million.

Other income is expected to be about \$100,000 in the third quarter.

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

The fully diluted share count in the third quarter is expected to be about 17.7 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.

We are pleased that we are able to report continued progress to our investors. You may recall that towards the end of 2008, we began to discuss our plan to focus on critical vertical markets, particularly those in which we had some momentum and that represented a meaningful opportunity. Despite the challenges that the entire industry faced in 2009, our growth over the past four quarters suggest that our business development efforts were effective. The increase in our 2010 revenue forecast to \$67-70 million reflects our growing confidence.

With that, I'd like to review specific highlights in Marketing and Sales, Product Development and Engineering, Operations, and in our Organizational Development.

We had several notable sales and business development accomplishments during the past quarter. We have previously mentioned the importance of LTE and China

to the near and long-term growth of our scanning receiver business. In Q2, we secured both Huawei and ZTE, the two largest Chinese LTE players as PCTEL customers. Additionally, the second largest U.S. LTE operator approved PCTEL as an LTE scanning receiver supplier. We already had been serving the largest U.S. LTE operator with these products. We also posted gains with our largest OEM customer for our scanning receiver products. Their business doubled with us over the same quarter last year.

We were extremely active on the antenna solutions side of the business as well. We received a major order for New York State, delivered a new GPS tactical antenna to the military, a leading-edge WiFi mesh antenna for offloading applications, and strengthened our antenna business in several key vertical markets. These include Agriculture, Smart Grid, Remote Monitoring, and rural Internet with WiMax. We secured both Time Warner and Square D as customers. Motorola and Cisco continue to be strong customers for us.

Our investors might recall that we acquired the scanning receiver assets from Ascom late last year. We had several obligations and opportunities associated with that acquisition. For example, we were contractually committed to deliver two product releases of that scanning receiver to Ascom and their customers. I'm

extremely pleased to report that we completed that development effort and, as a result, we have been able to reach a new customer.

We continue to enhance our EX product line and we are investing in a next generation platform that we believe will establish an industry standard for scanning speed, dynamic range, concurrency, and flexibility. Our scanning receiver development team is doing an excellent job. As a result, we have eliminated approximately \$100,000 in development expense per quarter, starting in the third quarter.

In addition to our new WiFi Mesh antenna that we already mentioned, our antenna product development group also released a new Yagi, optimized for Smart Grid applications, dual-band Omni antennas for Offloading, and highly compact GPS antennas for military and commercial applications.

As you already know, we committed to a significant organizational change in April. We abandoned our Business Unit organizational structure and migrated to a fully functional organization, with Jeff Miller managing all sales, product management, and marketing, and Tony Kobrinetz, recently hired after an accomplished career at Motorola, managing all of our technology, development,

and operations. As part of that transition, we are setting stretch goals for cost reduction across the organization, including supply chain effectiveness. By next quarter, we will have fully integrated our newly-acquired Sparco supply chain operations into our Bloomingdale facility. As announced earlier, we brought in Rod Bothwell, as our new Vice President of Sourcing and Quality to accelerate our progress in key areas, particularly material and component costs.

You may have noticed some changes on the PCTEL website, especially to the description of our two major product lines. Our intention was to expose customers and potential customers to our capabilities and not just our products. While we are immensely proud of our products and their performance and quality, PCTEL's real strength has more to do with its competence in RF modeling, environmental testing, baseband processing, DSP engineering, network design, software engineering, and rapid prototyping. Our Web Site will undergo a major revision this quarter in order to amplify and promote these characteristics. The Antenna Products and RF Products sites already reflect the emphasis on our capabilities and the markets that we can address as opposed to a catalog-like presentation of our products.

During the quarter, we had a booth presence at Entelec, CommunicAsia and the Cisco Live industry exhibitions. We attended several specialized industry conferences (Oil and Gas, Utilities and Communications, SCADA) as well. Our plan is to allocate additional resources to targeted conferences in areas such as SCADA, Smart Grid, Defense, and Measurement and to avoid the larger, less-defined, and more expensive industry shows. In the quarter, we also had the opportunity to present at both the Baird Growth and B Riley Investor Conferences. We appreciate the opportunity to communicate with existing and potential investors at these forums.

We do see some risks. While we are well-positioned in the scanning receiver market, there is some evidence that LTE network deployment has slowed as the early adopters work out some of the performance issues with the new standard. There has also been some consolidation in this industry. For example, JDSU acquired Agilent's scanning assets and, no doubt, will compete aggressively in this market. Finally, we still are integrating the Wider and Comarco products into our product portfolio.

With respect to antennas, our two greatest concerns have to do with the general economic environment. Any disruption in the credit market could impact our

largest distributors and their capacity to borrow money to fund inventory investments. The second concern pertains to the continued state and local tax revenue shortfalls. While we believe that we have already seen the worst of the drop in state and local support of public safety networks, continuing debt and lagging tax receipts could cause further weakness. As we have in the past, we will seek out faster growing markets to compensate for the slowdown in state and local network spending.

I want to comment briefly on our M&A activity. During the economic downturn, we evaluated several potential acquisitions. Since January, 2009 we acquired WiSys in an effort to expand our GPS antenna product line and SPARCO so that we could build upon our momentum in Health and Hospitality and to participate in the distribution of bundled enclosures for wireless communications. With respect to scanning receivers, we acquired the intellectual property and the distribution rights to interference management systems developed by Wider Networks and the Ascom scanning receiver assets. We completed all of these transactions within a year.

We continue to look for interesting assets in a variety of highly-related areas. These include: indoor wireless, communication modules, RF Components,

specialized antennas for private networks, and wireless test and measurement product families. We are also interested in services related to our markets. However as we have in the past, we will only announce acquisitions as they occur.

We are really excited about PCTEL's future and the team that we have in place to execute our strategy. We believe that we have opportunities for further efficiency gains, synergy between our two product groups, and expansion through both acquisition and organic activity. As John has already indicated, we also believe that revenues are likely to increase as we complete the year.

With that, we have concluded our formal remarks and we have set aside 30 minutes for your questions.

[Q&A SESSION]

[CLOSING REMARKS]

Thank you all for joining us on this call and web cast. We are planning to present at the Rodman & Renshaw Annual Global Investment Conference, September 12-15 in New York. We look forward to seeing many of you at this event and in the coming months.

