PCTEL Q2 2008 FINANCIAL RESULTS CONFERENCE CALL
JULY 24, 2008

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL second quarter 2008 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'll now turn the call over to Jack Seller, Director of Marketing for PCTEL, who will read our safe harbor statement.

JACK SELLER:

Thank you for joining us today, July 24, 2008, for the PCTEL financial results conference call for the second quarter 2008. 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 and expectations regarding the future growth of our wireless RF and licensing businesses, 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 for opening remarks.

MARTY SINGER:

Thank you, Jack. On behalf of PCTEL, welcome to our financial results conference call for the second quarter.

Before I turn the call over to John for a detailed review of the quarter, let me briefly recap the results for the quarter on a non-GAAP basis:

- Revenue was $20.3 million;
- Gross margin was 48 percent;
- Operating income from continuing operations was $2.9 million; and
- Net income from continuing operations was $3.0 million.

I'd also like to summarize some of the highlights from our second quarter.

I'm pleased to note that we completed our previously announced buyback of 3.0 million shares, and, during the quarter, purchased 1.88 million shares at an average price of $9.04. We also paid out a $10 million one-time cash dividend, which represented a significant return to our shareholders. After all of these events, we have roughly $85 million in cash and investments on our balance sheet.

With that as background, I'd now like to turn the call over to John Schoen who will provide you with the financial details of the quarter.

JOHN SCHOEN:

Thank you Marty, and good afternoon, or evening, 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 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, 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 closed the sale of its Mobility Solutions software group, or MSG, to Smith Micro on January 4, 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

Second quarter 2008 revenue from continuing operations was $20.3 million compared to $16.5 million in the second quarter of 2007, an increase of 23 percent. Revenue for scanning receivers in the quarter was up significantly, both sequentially and year over year, on the strength of several large orders through our OEM customer channel. Antenna revenue growth from the same period last year was modest, primarily related to the acquisition of Bluewave in the first quarter this year.

Gross Profit Margin

Gross margin from continuing operations for the second quarter was 48 percent versus 45 percent in the same period last year.   The gross margin improvement reflects the favorable product mix of scanning receiver revenue previously mentioned.

Operating Expenses

Second quarter non-GAAP R&D and SG&A from continuing operations were $7.2 million, down $400,000 from the same quarter last year. R&D expense was lower by $100,000. Last year's expense included expenses related to our antenna operation in Ireland, which we discontinued at the end of Q2 last year. Sales & Marketing were up $100,000 on higher revenue. G&A expense was $400,000 lower, resulting from our decision to divest our software business and concentrate solely on RF.

As you may recall, one of the company's initiatives is to increase profitability to double digits. Management of our operating expenses is one of the components of this goal, which we expect to achieve through greater operating efficiencies within the business.

The Conexant royalty was lower than last year by $50,000, as the contractual quarterly cap is lower in 2008.

Non-GAAP Operating Income

Non-GAAP operating income from continuing operations in the second quarter was $2.9 million, or 14 percent of revenue, compared to $127,000, or one percent of revenue in the same period last year. The results reflect improved gross profit performance and lower operating costs.

Other Income

Other income was $650,000 in the second quarter compared to $850,000 a year ago, and $800,000 in the first quarter 2008. The year over year decline is attributed to lower interest rates more than offsetting the rise in cash and investments. The sequential decrease is due to cash used in the second quarter to fund the special cash dividend, the stock buyback and the first and second installments of our estimated tax payments due for the gain on the sale of MSG.

Non-GAAP Income Taxes

The non-GAAP income tax rate is 16% and we expect it to remain at that level in 2008.

Non-GAAP Earnings

Non-GAAP net income from continuing operations for the second quarter 2008 was $3.0 million, or $0.15 per diluted share, compared to non-GAAP net income of $800,000, or $0.04 per diluted share in the second quarter of 2007. To summarize the differences previously discussed, net income from continuing operations was higher from higher revenue, improved gross profit, and lower operating expenses, which were partially offset by lower interest.

Balance Sheet

Now let us turn to the balance sheet.

Cash and investments ended the quarter at $85 million of which $70 million is classified as short term and $15 million is classified as long term. This is a sequential decrease of $33 million from the first quarter this year. The largest contributing factors to the change were: $17 million used for the stock buyback; $10 million paid out for the special dividend; $10 million paid on the first and second installments of the estimated tax payments due for the gain on sale of MSG; offset by $4 million of net cash generated from all other sources. There are two more estimated tax payments of $5 million each due in September and December related to the gain on sale of MSG.

Of the roughly $85 million in cash and investments currently on hand, the company has approximately $2 million in operating bank accounts; $58 million in AAA money market funds which are in turn invested 100 percent in short term U.S Treasury securities, U.S. Federal Government Agency securities, or bank repurchase agreements collateralized by the same; $20 million in the Columbia

Strategic Cash Portfolio Fund, an enhanced cash money market fund; and $5 million in tax exempt municipal notes.

As we have discussed in previous calls, the Columbia fund is an enhanced cash money market fund that was impacted by the recent turmoil in the credit markets. Columbia is in the process of liquidating the fund. The liquidation program returned $5 million of our investment in the second quarter 2008. To date Columbia has liquidated approximately 53 percent of our original share position; however we cannot predict the ultimate outcome of the liquidation. Of the $20 million balance remaining in the Columbia fund, $10 million is classified as short term and $10 million is classified as long term, as the weighted average life of the underlying securities are beyond 12 months.

Income Statement Guidance

Now I would like to discuss guidance for the third quarter and the year for continuing operations.

We anticipate the quarter will see year over year revenue growth in both scanning and antenna products. Sequentially from the second quarter, we anticipate significant growth in antenna revenue from WiMax and a sequential decline in scanning revenue. The sequential decline in scanning receiver orders will return us to very strong levels but we do not anticipate the large, urgent orders that we received in the second quarter. Modem licensing revenue is expected to remain immaterial. As a result total Q3 revenue is expected to be approximately $20.3 million, which is sequentially even with the second quarter and an increase of 15% from the third quarter 2007. We have tightened our annual revenue guidance range to $79 to $81 million. It was previously $78-$82 million.

Now let's turn to gross profit percent. We expect strong revenue contributions from some of our lower margin, antenna products in the quarter. The change in product mix will result in a sequential decline in gross profit percent. We project 43 to 45 percent gross profit for the third quarter.

Guidance for third quarter non-GAAP R&D and SG&A from continuing operations is expected to be in a range of $7.2 to $7.4 million. We continue to look at the cost side of the equation in driving higher earnings.

The Conexant royalty is expected to be $200,000 and other income is expected to be $400,000 for the quarter.

The annual guidance for the non-GAAP effective income tax rate remains unchanged at 16 percent.

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 performed well in the second quarter, with significant contributions from the scanning receiver product line and consistent performance from our antenna products. The results also underscore our efforts to better manage OPEX. Across the board, OPEX as a percent of revenue continued to decline. This is particularly true in G&A, where John has been able to contain or reduce costs associated with IT, Legal, HR, Finance, and Strategy development. These cost reductions are a continuing benefit from our decision to focus the business on our RF products.

Although we do not offer revenue guidance by product line, we experienced an exceptional sequential improvement in scanning receiver sales. I hasten to add that some of this increase reflects a significant order from one of our major OEMs that needed to be shipped in its entirety in the second quarter. Our scanning receiver sales will return to strong but more sustainable levels in the third quarter. As John has already pointed out, the strong scanning receiver sales in the second quarter contributed heavily to our unusually strong bottom line performance. Financials aside, we had a few significant product events in RFS that warrant mention.

Many of you have read about the deployment of TD-SCDMA in China. We are pleased to report that our TD-SCDMA scanning receiver, along with our WiMAX scanning receiver, are now commercially available for deployment in China. In fact, we already received our first WiMAX scanning receiver order for the China market. Both applications are based on our industry-leading SeeGull EX platform, which drives testing applications across cellular technologies. Our WiMAX scanning receiver is commercially available in other markets as well.

The EX platform was also deployed in UMTS applications in both the U.S. and Russia during the second quarter and we had one significant CLARIFY order in South America. We continue to ship iDEN-technology based scanning receivers outside of the United States. We shipped an InSite-iDEN solution, for example, to Nextel Mexico during the quarter.

We have had an extremely exciting quarter in our Antenna Products Group as well. As we have been communicating over the past several quarters, GPS has emerged as an important market and product area for PCTEL. This past quarter, we released an industry-leading, multi-band, timing antenna. The importance of this

Tri-Band GPS antenna is that it can derive network timing from any one of the three, primary satellite services used in different regions. The ability of our new antenna to derive timing from GPS, GLONAS, and Galileo, will enable greater flexibility for political, security, or economic reasons. The critical advantage of our new design is that our major OEM customers can order a single product – one SKU – to meet all of their timing needs.

It was a strong quarter for WiMAX antennas. We won a significant order from AXTEL, a Mexico-based operator providing high-speed data services, for our WiMAX CPE antennas. We also delivered high-volume production orders to both Alvarion and Motorola. We believe that this business will continue to grow. We continue to ship meaningful quantities of Canopy as well, a pre-cursor to the WiMAX standard.

During the quarter, we completed the integration of the recently acquired Bluewave antenna product line into our Bloomingdale operation and we are pleased with the initial sales results for those products. We secured a new OEM customer for the Bluewave product line that should expand our existing sales levels in North America. We also experienced growth in some of our traditional antenna business associated with OEM manufacturer support for Cablevision.

Finally, we experienced our strongest antenna quarter in EMEA in the last 2.5 years driven largely by our investment in WiMAX applications.

With all of this positive product news and our increased revenue and earnings, we do not want to minimize some of the challenges that we face. Inflation is taking a toll on freight and commodity costs. Our cost of business is increasing and we need to re-double our efforts to combat gross margin pressure, particularly in the antenna products group where the rising costs of raw material directly impacts our cost of goods sold. There is also work to be done on the top line in APG: our business model requires that we continually identify and sustain new opportunities.

Further, consolidation in our industry continues. Large customers often seek out large suppliers and some of our competitors have consolidated in anticipation of this pressure. Finally, we are watchful of spending from municipal, state and federal budgets that drive the purchase of our Land Mobile Radio antennas. To date, we have not witnessed significant, downward pressure but we must monitor all of these factors. You will note that we have carefully managed our own expense budget growth in anticipation of emerging pressure.

John already commented on the successful buyback of PCTEL stock. At this point, we have no further authorization to buyback additional stock. We believe that carefully orchestrated, small, accretive acquisitions will increase shareholder value. When we announced the divestiture of MSG, our stock was trading at $7.61. Many investors opposed this strategic move, not recognizing the potential advantages of achieving focus on RF. Today, the stock price has benefited from the decision and we paid out a one-time, special dividend to our shareholders. We believe that we can build upon this momentum.

It is our goal to double revenue from 2007 to 2011 and to remain a double-digit operating profit company. On a continuing operations basis, we now have three successive quarters that are consistent with that model and we are working on a fourth. Our strategy to achieve this goal comprises four elements:

1) Continue to exploit the global growth in wireless broadband,
2) Establish leadership positions in each of the markets we pursue,
3) Enhance our position in product areas such as GPS, WiMAX and mobile LMR antennas, and
4) Target select acquisitions that expand our footprint and organic growth opportunities.

That concludes my prepared comments and we will now open the call to take your questions. We have set aside 30 minutes for this portion of the conference call.

[Q&A SESSION]

[CLOSING REMARKS]

I want to thank all of you for joining us today on the call and on the webcast.

In the coming quarter we will be presenting at the B. Riley Cash-Rich Technology Conference in San Francisco on August 12 and at the Jefferies Technology Conference in New York on September 10. We hope to see many of you at those investor events and to be speaking with other interested investors in the coming quarter ahead of our quiet period.

Thank you and good evening.