

PCTEL Q3 2008 FINANCIAL RESULTS CONFERENCE CALL

October 27, 2008

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL third quarter 2008 earnings 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 Marty Singer, Chairman and CEO of PCTEL.

MARTY SINGER:

Good afternoon and thank you for joining us for our third quarter earnings conference call. With me today are Jack Seller, our Director of Marketing, and John Schoen, PCTEL's CFO. Jack will review the Safe Harbor Statement, John will discuss our results and our financial performance in some detail and I will comment on our progress over the past quarter and what we see in the future.

With that as introduction, I'll turn the call over to Jack Seller, Director of Marketing for PCTEL, who will read our safe harbor statement.

JACK SELLER:

Thank you, Marty.

Safe Harbor Statement

Today's call will contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Specifically, the statements regarding PCTEL's future financial performance, and our expectations, opportunities and risks regarding growth in 2009 are forward looking statements within the meaning of the safe harbor. These statements are based on management's current expectations and actual results may differ materially from those projected as a result of certain risks and uncertainties, including the ability to successfully grow the wireless products business and the ability to implement new technologies and obtain protection for the related intellectual property. These and other risks and uncertainties are detailed in PCTEL's Securities and Exchange Commission filings. These forward-looking statements are made only as of the date hereof, and PCTEL disclaims any obligation to update or revise the information contained in any forward-looking statement, whether as a result of new information, future events or otherwise.

I would now like to turn the conference call over to John Schoen, who will provide you with the financial details of the quarter.

JOHN SCHOEN:

Thank you Jack, 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 excluding restructuring charges, gain or loss on sale or impairment of assets, 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 presentation of net income excluding these charges as well as 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

Third quarter 2008 revenue from continuing operations was \$20.1 million compared to \$17.6 million in the third quarter of 2007, an increase of 14 percent. Revenue for both scanning receivers and antenna products grew at approximately the same rate versus the third quarter last year. Scanning receiver revenue was up on the strength of UMTS deployments. Antenna revenue growth from the same period last year was split about half from the acquisition of Bluewave earlier this year and half from organic growth.

Gross Profit Margin

Non-GAAP gross margin from continuing operations for the third quarter was 48 percent versus 45 percent in the same period last year. Both scanning receiver products and antenna products experienced improved margins as a result of favorable product mix and leveraging fixed costs over higher volume.

Operating Expenses

Third quarter non-GAAP R&D and SG&A from continuing operations were \$6.9 million, down \$300,000 from the same quarter last year. R&D expense was higher by \$400,000 on engineering investments in both scanning receivers and antennas. For example, this is the first full quarter of expenses related to our new antenna design team in China. SG&A is \$700,000 lower through efficiencies resulting from our decision to divest our software business and better control of our sales and marketing expenses.

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 third quarter was \$2.9 million, or 15 percent of revenue, compared to \$1.0 million, or six percent of revenue in the same period last year. The results reflect improved gross profit on higher revenue and lower operating expenses. In two of the last four quarters we have achieved our long-term goal of sustaining a 15 percent operating profit.

Other Income

Other income was \$100,000 in the third quarter compared to \$820,000 a year ago. There are two factors contributing to the decline. As I will outline in more detail in the balance sheet review, we are heavily invested in Treasury and Federal Government Agency paper for safety. The yields on that move to safety are very low compared to the commercial paper we were invested in a year ago before the credit market turmoil. Secondly, the company experienced a \$250,000 mark to market loss recorded in the quarter from the company's remaining investment in Columbia Strategic Asset Portfolio, an enhanced cash fund. I will discuss the Columbia fund in more detail during my review of the balance sheet and income statement guidance.

Non-GAAP Income Taxes

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

Non-GAAP Earnings

Non-GAAP net income from continuing operations for the third quarter 2008 was \$2.6 million, or \$0.14 per diluted share, compared to non-GAAP net income of \$1.8 million, or \$0.09 per diluted share in the third quarter of 2007. To summarize the differences, net income from continuing operations was higher from increased

gross profit on higher revenue and lower operating costs, which was partially offset by lower interest and a higher tax rate in 2008.

Balance Sheet

Now let us turn to the balance sheet.

Cash and investments ended the quarter at \$80 million of which \$67 million is classified as short term and \$13 million is classified as long term. This is a sequential decrease of \$5 million from the second quarter this year. The largest contributing factor to the change was the company's market repurchase of 503,000 shares of its common stock during the quarter for approximately \$5 million. After the third quarter ended, we completed our authorized stock buyback with an additional 497,000 shares purchased for \$4.5 million, leaving our cash and investments as of today's date at approximately \$75 million.

Of the roughly \$80 million in cash and investments on hand at the end of third quarter, the company had approximately \$1 million in operating bank accounts; \$52 million in AAA money market funds which are in turn invested 100 percent in short term U.S. Federal Government Agency securities, or bank repurchase agreements collateralized by the same; \$14 million in the Columbia Strategic Cash

Portfolio Fund, an enhanced cash money market fund; and \$13 million in tax exempt pre-refunded municipal notes.

Income Statement Guidance Q4 2008

Now I would like to discuss guidance for the fourth quarter 2008. Marty will discuss guidance as well in his prepared remarks.

We anticipate revenue for the fourth quarter to be in a range of \$17.5 to \$18.5 million, versus revenue of \$19.1 million in the same quarter last year. The company is seeing weaker order booking rates than the fourth quarter last year and the quarter just completed.

Non-GAAP gross profit percent for the fourth quarter is expected to be in a range of 45 to 46 percent, down from 48 percent in the third quarter. The mix of antenna products orders we are seeing so far in the fourth quarter are of lower margin than experienced in the last quarter. Additionally, at lower volumes we will not experience the same level of fixed cost leverage.

Non-GAAP R&D and SG&A from continuing operations are expected to be between \$6.9 and \$7.1 million for the fourth quarter, reflecting higher investment than last quarter in R&D as well as a seasonal SG&A spending.

The Conexant royalty is expected to be \$200,000, consistent with the quarter just ended.

Other income & expense is expected to be an expense of \$100,000 in the fourth quarter. The most recent turmoil in the credit markets is driving mark to market losses in the company's remaining \$14 million investment in the Columbia Strategic Asset Fund that are expected to more than offset the interest earned on the rest of the company's investments during the fourth quarter. As a reminder the Columbia fund is in the process of liquidating. We originally started last year with just over \$43 million in the fund and our balance is down to just under \$14 million. Additionally, the fund has announced another \$2.0 million liquidation payment payable this week, which will bring the balance to \$12 million. While the fund manager will have been successful in liquidating over 70% of the original balance by October end, we cannot predict the ultimate outcome of the liquidation.

The non-GAAP effective income tax rate remains unchanged at 16 percent.

Income Statement Guidance 2009

Now I would like to turn to guidance for the full year 2009. Marty will comment in more detail during his prepared remarks, but we are cautious about our outlook for 2009 given the recent trends in order flow and the overall worldwide economic outlook. With that said we are offering the following guidance for the full year 2009.

Revenue is expected to be in a range of \$80 to 84 million, which at its midpoint represents approximately seven percent organic growth over 2008. We have not included the potential for acquisitions in the guidance offered.

Non-GAAP gross profit percent is expected to be in a range of 46 to 48 percent, which is in the same range as 2008.

Non-GAAP R&D and SG&A are expected to be in a range of \$29 to \$30 million.

The Conexant royalty is expected to be \$400,000 for the year, which is \$200,000 per quarter through the first two quarters. There are no more payments due under their license after the second quarter.

Other income, which is primarily interest income on our invested cash, is expected to be approximately \$1.0 to \$1.2 million next year, based on our intention to concentrate our investments in short duration U.S. Federal Government Agency paper as well as our expectation that our remaining investment in the Columbia Strategic Asset Fund will continue with a net yield of zero to slightly negative. We remain exposed to mark to market losses with the Columbia Strategic Asset Fund until the liquidation is completed.

The Non-GAAP income tax rate is expected to be between 16 and 18 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.

My remarks this evening will focus on four areas: (1) **Trends** in our business environment which are impacting PCTEL; (2) **Operational and Sales Progress**; (3) **Guidance** for the fourth quarter and for the 2009 year; and (4) our **M&A**

efforts. As we mentioned at the outset, we have set aside 30 minutes for your questions.

Trends

As we have explained at various investor presentations, our antenna and scanning receiver businesses are exposed to different markets. Over 90 percent of our antenna business is focused on the Enterprise space. Our definition of Enterprise includes public safety as well as business operations. Within the Enterprise space, we focus on vertical markets such as in-building wireless, SCADA, fleet management, dispatch, military applications, and wireless LANs. We compete in the carrier antenna space on an exception basis. GPS timing antennas and WiMAX antennas are two product lines with exposure to the carrier antenna space.

Our scanning receiver product line focuses on the carrier market and derives limited revenue from private, in this case, military networks. Our scanning receivers are integrated into third party test and measurement systems and then distributed to the carriers worldwide.

Both businesses take advantage of a leveraged sales model. In our antenna business, we sell through distributors and OEM suppliers of wireless equipment.

In our scanning receiver business, a significant portion of our sales are made to OEM vendors of wireless test and measurement equipment.

The differences between the two product lines expose us to different risks and opportunities. As John has already summarized, we have been able to navigate through a very challenging economic time for carriers because most of our antenna sales are to the Enterprise, and demand for our scanning receivers is consistent with reduced carrier CAPEX investment. We are currently being helped by a few trends: more businesses are converting their operations from wired to wireless networks. This is helpful to our antenna business as enterprise solutions utilize VHF and UHF radio frequencies. Demand for greater bandwidth over wireless networks also helps drive our business as does the wireless growth in developing economies. Our scanning receivers are, for example, being deployed in China and India. These positive trends explain, in part, why we have been able to continue to grow revenues, despite a difficult economic environment.

There are unhelpful trends as well. WiMax is clearly being deployed at a far less aggressive rate than initially anticipated. Most deployments are dominantly last-mile fixed wireless offerings. Mobile WiMAX is still limited to trial status. More importantly, the general business environment, characterized by a lack of liquidity,

is likely to impact negatively our land-mobile radio and our in-building growth opportunities, among others.

With these potential risks, we believe our attention to our cost structure has already enabled us to do more with less.

Operational and Sales Progress

As John's financial review indicates, we have made progress in leveraging our underlying cost structure: Efficiencies in SG&A have more than offset our increased investment in R&D. We must continue to develop our highly leveraged sales model – OEM and distributor channels. We believe that over time, we will achieve a financial model with OPEX at 30 percent of revenue. It is our long-term goal to achieve a sustainable operating profit of 15 percent. We have been successful in achieving this model in two of the past four quarters. We are committed to this goal. We will take appropriate action to manage our OPEX in response to slower growth.

On the sales front, we released four new antenna products and two new scanning receiver products during the third quarter. In addition to enhancing performance of our SeeGull EX platform, we released a new EX WiMAX scanning receiver that

operates at the 3.5 GHz frequency band. This will enhance our ability to market our products in Europe and elsewhere.

With respect to our antenna product line, we continued to rollout our new multi-band GPS antenna that is compatible with the three major satellite services (GPS, Galileo, and Glonass.) We also released an integrated GPS timing antenna and receiver that substantially reduces costs for our customers. We continue to build upon our in-building presence with the introduction of a new 700 MHz antenna for public safety applications. Finally, we have made some promising inroads into defense application (specifically, ICOM in Iraq) with a new, wideband UHF mobile antenna.

We have been very pleased with several developments in marketing and sales. Although, as I will discuss later, there is softness in the fully mobile WiMAX market, we are beginning to see reasonable results in the point-to-point and point-to-multipoint WiMAX market. We shipped 2500 WiMAX Sector panels to a major OEM vendor during the quarter and we are now sole source for several SKUs with another OEM vendor. During the quarter, we also received certification in Russia for our WiMAX antenna product line. We have also

witnessed continued growth in Canopy antenna sales, a proprietary pre-cursor to WiMAX, that has benefited from the slower WiMAX deployment.

We had four strong sales successes in China. We received our first GPS timing antenna order from a major OEM for an application in China and our first significant CDMA scanning receiver order for deployment in China's CDMA networks. We also secured two new Clarify contracts in that country – directly from large carriers and we sold our GPS antenna for a military application in Asia.

We continue to grow our presence in Latin America. During the third quarter, we secured our first Clarify contract in Chile and our first scanning receiver order from Nextel International in Brazil. The latter reflects our decision to enter into a licensing agreement with Motorola a few years ago and to meet the long-term, international market requirement to support iDEN-based networks with solid test and measurement tools.

Guidance

Let me now review our outlook and guidance for our fourth quarter and for 2009.

While we were pleased that we were able to grow revenue and gross profit margin for the third quarter, it has become clear that the market has softened for, at least, some of the reasons just discussed. Before I discuss the revenue guidance in more detail, let me briefly summarize these factors.

As we have already mentioned, we expect the business environment will be challenging.

Indeed, in the WiMAX space, network operators who intended to offer data only services have revised their business plans. It is clear that they need to offer a “double play” of voice and data to realize a reasonable return on their investment. We anticipated \$2 million in WiMAX antenna sales that will not materialize this year because of these delays. We had also anticipated a small bump for our new WiMAX scanning receivers. These orders moved out of the second quarter, then out of the third quarter and we now, no longer anticipate receiving them in 2008. We do, however, believe we will capture this revenue in 2009.

We also reported earlier that we had sold off the remaining antenna products from our Irish operation. While the revenue was small and of relatively low margin, we

had some in the forecast for the second half of the year that we will not be able to replace in 2008.

These factors, along with a generally deteriorating economic environment, will result in lower fourth quarter revenue than we originally anticipated. As John has indicated, we believe we will generate between \$17.5 and \$18.5 million in revenue in the fourth quarter. As a result, we anticipate revenues of \$76 to \$77 million for the year.

We believe we can achieve the 2009 revenue guidance that John discussed based on new technology deployments that will require our scanning receivers and the pressure on network engineers to squeeze more capacity out of the same infrastructure. We expect our scanning receiver business to grow no less than 10 percent on a year over year basis.

While we expect the LMR and public safety business will be flat year over year in 2009, we expect 10 to 20 percent growth in our GPS product line and significant growth in our WiMAX sales, despite the slow rollout of the mobile application for that technology. Regionally, we still expect strong growth in China and South America. In total, we are forecasting a 3 to 5 percent growth in antenna revenue.

M&A Activities

Perhaps some of you saw Jack Welch on CNBC's Morning Call program a few weeks ago. He pointed out that in times such as these, you attempt to bury or buy your competitors. Looking back, we are pleased about several decisions that we have made that put us in a reasonably strong position to not only weather but to, perhaps, thrive in these challenging times.

You will recall that we divested our software group for approximately \$64 million dollars, a \$62 million gain on our initial investment. You may also recall that we divested the remaining Sigma assets and realized an additional \$9 million tax benefit that helped us protect this gain. While we returned some of this money to our shareholders in the form of a 4 million share buyback for \$34.2 million that was completed in October and a \$10.5 million special dividend, we have held onto that asset anticipating that we would soon be in a buyer's market. As of today, we have \$75 million in cash and investments, \$13 million of which is considered long-term.

We believe that there are many strong candidates for acquisition and that those targets have limited alternatives in the current environment. We are currently

evaluating several of these target companies. Again, we plan on making only neutral to accretive acquisitions and we will focus on relatively small companies, \$2 to \$15 million in revenue. Based on our experience, we are best at integrating operations with those size characteristics. We believe that we have extremely good opportunities to invest a portion of our remaining \$75 million.

Summary

Despite the current economic challenges, we met or exceeded our objectives for the third quarter. We are extremely pleased to report on our progress in delivering new products, penetrating new markets, and controlling our costs.

We continue to be shareholder focused. This past year we declared a special dividend, maintained our gross margins during a period of significant cost increases, and continued to support our stock through stock buybacks. We believe all of these actions have and will continue to lead to increased shareholder value.

While we need to acknowledge the severity of the current economic outlook and its potential impact on our business, we need to remind investors of the positive trends we are seeing that will contribute to our growth longer term.

1. More businesses are converting their operations from wired to wireless networks. This is helpful to our antenna business as enterprise solutions utilize VHF and UHF radio frequencies.
2. Demand for greater bandwidth over wireless networks also helps drive our business as does the wireless growth in developing economies. Our scanning receivers are, for example, being deployed in China and India.
3. We have a solid balance sheet with sufficient cash to fund working capital, take advantage of acquisition opportunities and return value to shareholders where we feel it is appropriate.

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.

Operator?