

## **PCTEL Q4 2009 FINANCIAL RESULTS CONFERENCE CALL**

**March 4, 2010**

### **OPERATOR:**

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL fourth 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, March 4, 2010, for the PCTEL financial results conference call for the fourth 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 \$14.8 million
- Non-GAAP Gross Profit Margin was 48%
- Non-GAAP Operating Margin was 4%
- Non-GAAP Net income was \$664,000, or \$0.04 per diluted share
- Cash and investments were \$75.6 million after our acquisition of Ascom's scanning receiver business, the purchase of intellectual property and distribution rights from Wider Networks, and the repurchase of PCTEL stock. This does not reflect the acquisition cost of Sparco as that transaction occurred in the first quarter of this year.

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.

**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](http://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**

Fourth quarter 2009 revenue from continuing operations was \$14.8 million. This compares to \$18.3 million in the fourth quarter of 2008, a decrease of 19%, but importantly an increase from the \$13.7 million in revenue reported in the 3<sup>rd</sup> quarter 2009. For both scanning receiver and antenna products, revenue was lower on a year over year basis, but higher sequentially. We believe that reduced scanning receiver revenue on a year over year basis 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 rollouts 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 public safety 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 fourth quarter was 48 percent, compared to 47 percent in both the third quarter 2009 and the fourth quarter 2008. The higher gross profit margin reflects a favorable product mix shift from the prior quarters and improved antenna gross margins.

## **Operating Expenses**

Now let's turn to non-GAAP operating expenses, which were \$6.4 million in the quarter. Reduction of SG&A expenses resulted in an overall decline in operating expenses by \$200,000 as compared to the fourth quarter of 2008. Our R&D expense was about \$100,000 higher. We continue to invest in our future through R&D spending even 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 fourth quarter of 2008.

### **Non-GAAP Operating Income**

Non-GAAP operating income from continuing operations in the fourth quarter was \$629,000, or 4 percent of revenue, compared to \$2.1 million, or 12 percent of revenue in the same period in 2008. The results reflect lower gross profit dollars on lower revenue, partially offset by lower operating costs.

### **Other Income (Expense)**

Other income was \$181,000 versus a net loss of \$1.5 million in the fourth quarter of 2008. The fourth quarter 2008 results included a realized mark to market loss of \$1.7 million on our Columbia Fund investment. The liquidation of our investment in Bank of America's Columbia Fund was completed during the fourth quarter and we have no further exposure related to that investment.

### **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 fourth quarter 2009 was \$662,000 or \$0.04 per diluted share, compared to non-GAAP net income of \$568,000, or \$0.03 per diluted share in the fourth 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 and the absence of any mark to market losses on our investments.

## **Balance Sheet & Cash Flow**

Now let us turn to the balance sheet.

Cash and investments ended the quarter at approximately \$76 million; \$3 million lower than last quarter. Approximately \$10 million is classified as long-term investment securities.

As discussed in the earnings press release, the company paid out cash of approximately \$ 6 million in aggregate for its Ascom scanning receiver acquisition, the purchase of technology & distribution rights related to its IP litigation settlement with Wider Networks, and the repurchase of approximately 167,000 shares of our common stock. The company generated approximately \$3 million in cash and investments from all other activities during the quarter.

Of the roughly \$76 million in cash and investments on hand at the end of fourth 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; \$16 million in tax exempt pre-refunded municipal notes which are backed by US Treasury securities held in escrow; and \$5 million in AA or better corporate notes. As stated earlier, the company's investment in Bank of America's Columbia Strategic Cash Portfolio Fund, an enhanced cash money market fund, was completely liquidated in the fourth quarter.

In the quarter, cash flow from operations was approximately \$3.8 million, with capital expenditures of \$586,000.

### **Income Statement Guidance Q1 2010**

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

We anticipate revenue for the first quarter to be in a range of \$14.9 to \$15.1 million, as compared to \$14.1 million in 2009's first quarter. The increase is primarily attributed to revenue associated with the three recent transactions, Wider and Ascom in December and Sparco in January, as well as modest organic growth in antenna products.

Non-GAAP gross profit percent for the first quarter is expected to be in a range of 46 to 47 percent, about a point lower than the fourth quarter 2009 due to the product mix we are seeing. .

Non-GAAP R&D and SG&A in the first quarter are expected to be about \$500,000 higher than the fourth quarter, or approximately \$6.9 million. The sequential increase is related to approximately \$200,000 of new R&D costs associated with the Ascom acquisition, and \$300,000 of S&M costs, of which half is related to the Sparco acquisition, and half for annual trade shows which are scheduled predominantly in the first quarter each year.

Other income is expected to range between \$100,000 and \$200,000 in the first quarter.

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

The diluted share count in the first quarter is expected to be about 17.9 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.

As John has indicated, our business environment appears to be improving. In addition to our modest revenue growth, we have seen some indication that state and local governments have resumed deployment of critical public safety projects and that there is increased interest in broadband cellular deployment and enterprise networks for a variety of applications.

In our scanning receiver business, as an example, we had renewed interest in CLARIFY, our interference management product in several regions. We attracted new customers in Peru, Ecuador, and China. We developed a new OEM vendor for our scanning receiver products in China, we had our first LTE scanning receiver sales into Japan and we continued to make LTE sales in the U.S.

On the antenna side of our business, the investment in a highly-focused sales force with vertical marketing capabilities and inside sales support, appears to be making

a difference. We expanded our relationships with Raytheon, Motorola, Cisco, NEC, Alcatel Lucent, and John Deere, providing precision GPS antenna products, best-in-class Canopy and WiMAX antennas, and WiFi products. We were awarded two new and exciting public safety and public transportation projects by New York City and the state of Utah. Importantly, our restructured sales force led by Bob Suastegui has led to improved North American sales into our distributors. We have maintained our high level of investment in antenna and scanning receiver product development. As already announced in our press release preceding the Mobile World Congress in Barcelona, we developed new functionality and frequency bands for our LTE scanners as well as the crucial “code domain” functionality for our established CDMA/EVDO SeeGull™EX scanning receivers. We remain the technology and product leaders in this space.

Our Antenna Product Group successfully delivered the most versatile in-building multi-band antenna in the market. It serves applications from 700 Mhz to 6 Ghz. As in-building applications gain in importance, this antenna will be critical to several different vertical markets. We also launched our new Medallion™GPS antenna with an integrated GPS receiver. This product is vital to fleet management applications and enables direct digital signaling and eliminates a requirement for

costly RF connectors. Astral Communications and the State of Utah have become early customers for this product.

As you know from earlier press releases, we have been extremely active on the acquisition and IP front. We acquired Ascom's scanning receiver operation in Lake Forest, California as well as Sparco, a supplier and distributor of RF peripheral and antenna products. They reach specific, vertical markets that are of strategic interest to us. Finally, we resolved a lawsuit by cost-effectively acquiring the patents and distribution rights for Wider Networks products. We believe that all of these transactions serve important strategic and growth goals.

We are excited about 2010 and beyond. We do anticipate a temporary spike in our operating expenses because of the three transactions during the fourth and first quarters. While that will certainly dampen bottom line performance during the first two quarters, we anticipate revenue growth and territorial expansion that will manifest in the second half of the year. We sense an easing of the economic crisis and our investments in operational efficiency, new products, and new businesses should serve us well as we move forward in a more favorable business climate.

We appreciate the support of our investors as we navigate through a very challenging environment and we continue to work hard to reward your patience.

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.

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 attend the Wedbush Securities Management Access Conference in New York Thursday March 11th. We look forward to seeing many of you at that event and in the coming months.