

PCTEL Q2 2011 FINANCIAL RESULTS CONFERENCE CALL

July 28, 2011

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL second quarter 2011 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 John Schoen, Chief Financial Officer.

JOHN SCHOEN:

Thank you for joining us today, July 28, 2011, for the PCTEL financial results conference call for the second quarter 2011. On today's call will be Marty Singer, Chairman and CEO and myself, John Schoen, Chief Financial Officer.

Safe Harbor Statement

Before we begin, I would like to read our 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, John, 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:

- We achieved revenue of \$19.1 million, an increase of 7 percent over second quarter 2010.
- For the first half of 2011 we achieved \$37.3 million of revenue, an increase of 12 percent over the same period in 2010.
- Non-GAAP Gross Profit Margin was 47.5 percent.
- Non-GAAP Operating Margin was 8 percent
- Non-GAAP Net Income was \$1.4 million, or \$0.08 per diluted share
- Cash and investments were \$68.2 million.

Now I'd like to turn the call back over to John Schoen 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.

## 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.

Revenue

Second quarter 2011 revenue was \$19.1 million. This compares to \$17.8 million in the second quarter of 2010, an increase of 7 percent. The growth in Antenna product revenue was largely attributed to the company's high-rejection GPS antennas; with the revenue growth of scanning receivers attributed to the company's recently introduced MX scanning receiver line.

### Gross Profit Margin

Non-GAAP gross profit margin for the second quarter was 47.5 percent, an increase of one percent from the same period last year. Compared to the same period last year gross profit margin improved in antenna products but declined modestly in scanning products, as the newly introduced MX product line has a slightly higher cost profile than our other scanning products. The net result of the margin changes resulted in a higher gross profit margin percent.

### Operating Expenses

Now let's turn to non-GAAP operating expenses, which were \$7.6 million in the quarter, an increase of approximately \$400,000 from the same period last year. The increase is attributed to \$200,000 for the Company's ERP system

implementation and a \$300,000 investment in PCTEL Secure, offset by a net spending decrease of \$100,000 in all other areas.

#### Non-GAAP Operating Income

Non-GAAP operating income in the second quarter was \$1.5 million, or 8 percent of revenue, compared to \$1.1 million, or 6 percent of revenue in the same period in 2010. The increase in dollars and percent of revenue for the quarter is reflective of higher gross margin dollars on higher revenue and improved gross margin percent, partially offset by higher operating costs.

#### Other Income (Expense)

Non-GAAP other income was \$60,000 in the second quarter versus \$87,000 in the same period last year.

#### Non-GAAP Income Taxes

The non-GAAP income tax rate in the quarter and the year was 18 percent, unchanged from 2010.

#### Non-GAAP Earnings

Non-GAAP net income for the second quarter was \$0.08 per share compared to \$0.06 per share in the same period last year. The increase in the quarter is attributed to higher operating profit, partially offset by lower interest income. The cost of the Company's ERP project and its investment in PCTEL Secure net of minority interest was \$0.02 per share in the quarter, and \$0.03 per share year to date.

#### Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the quarter at approximately \$68 million; about \$100,000 more than last quarter. Approximately \$9 million is classified as long-term investment securities.

In the quarter, the company generated approximately \$ 2.0 million of cash from operations, as compared to generating \$1.8 million in the same period last year. Capital expenditures were approximately \$1.6 million, as compared to \$222,000 in the same period last year. The second quarter 2011 capital expenditures include approximately \$1.0 million related to the Company's ERP system project. The company repurchased approximately 43,000 shares during the quarter for approximately \$260,000. There is

approximately \$2.3 million available under its current share repurchase authorization.

### Income Statement Guidance Q3 2011

Now I would like to discuss guidance for the third quarter 2011.

We anticipate revenue in the third quarter to be about the same as the second quarter just ended. This represents a 10 percent increase over the third quarter of 2010.

Non-GAAP gross profit margin is expected to be between 46-48 percent or about the same as the quarter just ended.

Non-GAAP operating costs are expected to be about \$7.6 million, unchanged from the quarter just ended.

Other income is expected to be \$75,000 and the credit for the elimination of non-controlling interest in PCTEL Secure is expected to grow to \$175,000.

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

The fully diluted share count in the quarter is expected to be about 17.8 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.

Our results suggest that we are continuing to make progress. In mid-2009, when states and municipalities stopped investing in public safety antennas and capital budgets for cellular operators tightened, we were hovering at \$13.4 million in revenue per quarter and barely generating profit. Over the last two quarters, we are averaging close to \$18.7 million a quarter and if we simply repeat the first half performance we will generate \$0.26 in Non-GAAP earnings for the year. Those earnings would be after expenses for our PCTEL Secure Joint Venture and the additional OPEX associated with

our ERP implementation. Without those expenses, we could potentially double our Non-GAAP earnings from 2010.

John has already reviewed the financial results in some detail. I would like to spend our time discussing a few of the major highlights of the past quarter and a bit about what we see going forward.

Operationally, we have made significant progress with respect to manufacturing efficiency. Tony Kobrinetz' team continues to transition key products to our manufacturing facility in Tianjin, China and to a new set of contract manufacturers that we have developed over the past year. During the second quarter, as one example, we successfully transitioned our MIMO antenna from Bloomington to Tianjin. We are clearly achieving our gross margin goals for the antenna product line which is essential to realizing our overall earnings objectives for the company.

Related to this transition, our marketing and operations group succeeded in obtaining key OEM approvals to manufacture major product lines in China. Both Cisco and GE certified manufacturing of Cisco's next generation access point antennas and GE's Yagis antennas at our facilities in China.

Our operations group is expanding our supplier base for sourcing high quality ancillary products. This will expand our product offerings complementing our antenna product line and enhance PCTEL's ability to deliver complete solutions to our customers. For example, we will soon market a PCTEL branded cable product line. These products will have acceptable gross margins, allow PCTEL to bundle or kit solutions for our customers and enhance the attractiveness of our overall packaging, which now includes high-quality enclosures.

On the development front, we had three new product releases and shipments of note. We announced our SeeGull® EX TD-LTE product. This release is crucial to our success in China. China's operators, now the largest in the world, have made a commitment to TD-LTE. That commitment alone justifies the development, release, and support of this technology on our platform. We anticipate demand from our major OEM resellers as well as from our China-based OEMs such as DingLi. We also released the new LTE MIMO capability on our EX platform, which will allow wireless operators to test broadband throughput metrics for MIMO implementations.

Our antenna product group designed, manufactured, and shipped its first 40db High Rejection GPS antennas for timing applications. Our new, HR GPS antennas are fundamental to the implementation of service in crowded spectrum adjacent to the GPS bands. Their capabilities have been noted in FCC filings. We anticipate high rejection GPS antennas to contribute up to 5% of total Company revenue in 2011.

We were pleased with several of our marketing and business development accomplishments during the second quarter. In the past, we discussed the extraordinary complexity and expense of bringing our new SeeGull MX product platform to market. The product appears to have established traction with our OEMs and in several end-user markets. By launching a product that supports all global cellular standards in one unit and that can operate across eight frequency bands, PCTEL has established a new benchmark in the industry. We have also isolated key shortfalls in how our competitors' products compare to our new platform. For example, one of our major competitor supports multiple frequencies, but does so by only addressing the 1.08 MHz center frequency in all frequency bands. This is inadequate for larger bands of 5, 10, 15 or 20 MHz. Our solution allows

operators to sample the entire band; their solution results in missing data from most of the band. As we clarify these important differences we anticipate even stronger sales for this new product.

Evidence of our traction includes initial sales into Canada; Qualcomm purchasing the MX and SeeHawk to standardize testing across multiple technologies, sales into Mexico, and standardization on our MX platform by the largest GSM/WCDMA/LTE network operator in the US.

Aside from the strong HR GPS Timing Antenna shipments in the second quarter, we delivered our WiFi Hospital Cart solution to Kaiser. We see stronger business in the future with Kaiser. We completed the NRE contract for the next generation of WAAS antennas from ITT and expect contract award for the product phase of this project later this month. We have also received an early development order from Nokia Siemens for their LTE PICO Cell program. Our military business expanded and we received our initial order from Union Pacific for a 3 year program focused on locomotive communication.

PCTEL Secure continues to progress. We are on track for delivering a prototype of our ProsettaCore™ solution on an Android platform in the fourth quarter. At this time, we are engaged in business development activities. We have been meeting with large defense systems integrators, the military, and several government agencies. The type of hacking recently reported in Great Britain illustrates the vulnerability of cellular phones to hacking, spying, and other malicious activities. That commercial phones are widely used in the military and by other government personnel represents a security gap. Our solution, coupled with adequately protected infrastructure, will address this gap.

We have nothing to report on the M&A front. We continue to explore acquisition opportunities but, as I have stated before, we are committed to obtaining assets at fair and reasonable valuations.

I should mention that we have been extremely active at various industry trade shows and conferences and investor meetings. We recently presented at Cisco Live in Las Vegas, Communicasia in Singapore, Entelec in Houston, The Office of Naval Intelligence show in DC and the US Army's CECOM (Communications Electronics Command) GPS Integration Conference in

Maryland. PCTEL Secure and PCTEL attended the Military Wireless conference in DC in June. In the 3<sup>rd</sup> quarter, We plan to exhibit at the ION GNSS show in Portland and the Railroad Systems Supplier Inc. (RSSI) show in Minneapolis. We presented at both the Baird and B. Riley Conferences in May and met with over 50 insitutional investors during the first half of the year. Rodman and Renshaw initiated coverage of PCTEL and we anticipate participating in their upcoming conference.

In summary, we were pleased with our second quarter results and believe that they are consistent with our presentations at investment conferences and to institutional investors. We have been able to replace much of our public safety antenna business with higher-growth, private enterprise opportunities such as fleet management, SCADA, telemetry, smart grid, positive train control, health-care, and entertainment. Offloading, remote monitoring, video surveillance, network timing, and other trends favorably impact our antenna business. Scanning receivers are receiving a boost from the LTE deployment, the adoption of TD-LTE in China and the acceptance of our new MX platform. We believe that we also have an upside related to our PCTEL Secure joint venture. Finally, we are meeting or exceeding our cost targets in two important areas: scanning receiver R&D and antenna gross

margin. We believe that we will make additional progress in both cost and revenue growth in the second half of 2011.

That concludes our prepared remarks. We have set aside 30 minutes for your questions.

Operator?

[Q&A SESSION]

[CLOSING REMARKS]