



# 2010

A N N U A L R E P O R T



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 000-27115

**PCTEL, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of  
Incorporation or Organization)

471 Brighton Drive,  
Bloomington IL

(Address of Principal Executive Office)

77-0364943

(I.R.S. Employer  
Identification Number)

60108

(Zip Code)

(630) 372-6800

(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class

Name of each exchange on which registered

Common Stock, \$.001 Par Value Per Share

The NASDAQ Global Market

**Securities registered pursuant to Section 12(g) of the Act:**

None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by checkmark whether the registrant has submitted electronically and posted on the Company's website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2010, the last business day of Registrant's most recently completed second fiscal quarter, there were 18,917,259 shares of Registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of Registrant (based upon the closing sale price of such shares on the NASDAQ Global Market on June 30, 2010) was approximately \$95,342,985. Shares of Registrant's common stock held by each executive officer and director and by each entity that owns 5% or more of Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title

Outstanding

Common Stock, par value \$.001 per share

18,210,433 as of March 1, 2011

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain sections of Registrant's definitive Proxy Statement relating to its 2011 Annual Stockholders' Meeting to be held on June 8, 2011 are incorporated by reference into Part III of this Annual Report on Form 10-K. The Company intends to file its Proxy Statement within 120 days of its fiscal year end.

**PCTEL, Inc.**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2010**

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## PART I

### Item 1: *Business*

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements concerning our future operations, financial condition and prospects, and business strategies. The words “believe”, “expect”, “anticipate” and other similar expressions generally identify forward-looking statements. Investors in the registrant’s common stock are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, or results of operations to differ materially from the historical results or currently anticipated results.

### Overview

PCTEL is a global leader in propagation and optimization solutions for the wireless industry. The company designs and develops software-based radios (scanning receivers) for wireless network optimization and develops and distributes innovative antenna solutions. Additionally, the Company has licensed its intellectual property, principally related to a discontinued modem business, to semiconductor, PC manufacturers, modem suppliers, and others.

While we have both scanning receiver and antenna product lines, we operate in one business segment. The product lines share sufficient management and resources that the financial reporting, upon which the Chief Operating Decision Maker (“CODM”) relies for allocating resources and assessing performance, is based on company-wide data. In the continuing operations for the year ended December 31, 2008 we had a reporting segment that licensed an intellectual property portfolio in the area of analog modem technology. However, as of June 30, 2009, the revenues and cash flows associated with Licensing were substantially complete, and the CODM ceased reviewing the financial information for Licensing. The Company, therefore, determined to cease treating licensing of such intellectual property as a separate business segment.

PCTEL was incorporated in California in 1994 and reincorporated in Delaware in 1998. Our principal executive offices are located at 471 Brighton Drive, Bloomingdale, Illinois 60108. Our telephone number at that address is (630) 372-6800 and our website is [www.pctel.com](http://www.pctel.com). The contents of our website are not incorporated by reference into this Annual Report on Form 10-K.

### Antenna Products

PCTEL’s MAXRAD®, Bluewave™ and Wi-Sys™ antenna solutions address public safety, military, and government applications; supervisory control and data acquisition (“SCADA”), health care, energy, smart grid and agricultural applications; indoor wireless, wireless backhaul, and cellular applications. Revenue growth for antenna products is driven by emerging wireless applications in these markets. Our portfolio includes a broad range of worldwide interoperability for microwave access (“WiMAX”) antennas, land mobile radio (“LMR”) antennas, and precision global positioning systems (“GPS”) antennas that serve innovative applications in telemetry, radio frequency identification (“RFID”), WiFi, fleet management, and mesh networks. Our antenna products are primarily sold through distributors and original equipment manufacturer (“OEM”) equipment providers.

We established our current antenna product portfolio with a series of acquisitions. In 2004 we acquired MAXRAD, Inc. (“MAXRAD”) as well as certain product lines from Andrew Corporation (“Andrew”), which established our core product offerings in WiFi, LMR and GPS. Over the next several years the Company added additional capabilities within those product lines and additional markets with the acquisitions of products from Bluewave Antenna Systems, Ltd (“Bluewave”) in 2008, Wi-Sys Communications, Inc (“Wi-Sys”) in 2009, and Sparco Technologies, Inc. (“Sparco”) in 2010. Our WiMAX antenna products were developed and brought to market through our ongoing operations.

In 2005, the Company purchased Sigma Wireless Technologies Limited (“Sigma”), an Irish company, in an attempt to enter the universal mobile telecommunications systems (“UMTS”) cellular antenna market. We exited those operations in 2007 and sold off the remaining assets in 2008.

There are many competitors for antenna products, as the market is highly fragmented. Competitors include such names as Laird (Cushcraft, Centurion, and Antennex brands), Mobile Mark, Radiall/Larsen, Comtelco, Wilson, Commscope (Andrew products), Kathrein, and others. We seek out product applications that command a premium for product performance and customer service, and seek to avoid commodity markets.

PCTEL maintains expertise in several technology areas in order to be competitive in the antenna market. These include radio frequency engineering, mobile antenna design and manufacturing, mechanical engineering, product quality and testing, and wireless network engineering.

**Scanning Receivers**

PCTEL is a leading supplier of high-speed, multi-standard, demodulating receivers and test and measurement solutions to the wireless industry worldwide. The Company’s SeeGull® scanning receivers, receiver-based products and CLARIFY® interference management solutions are used to measure, monitor and optimize cellular networks. Revenue growth for scanning receiver and interference management products is driven by the deployment of new wireless technology and the need for wireless networks to be tuned and reconfigured on a regular basis. PCTEL develops and supports scanning receivers for LTE, EVDO, CDMA, WCDMA, GSM, TD-SCDMA, and WiMAX networks. Our scanning receiver products are sold primarily through test and measurement value added resellers and to a lesser extent directly to network operators.

We established our scanning receiver product portfolio in 2003 with the acquisition of certain assets of Dynamic Telecommunications, Inc. (“DTI”). In 2009, the Company acquired the scanning receiver business from Ascom Network Testing, Inc (“Ascom”) as well as the exclusive distribution rights and patented technology for Wider Network’s (“Wider”) network interference products.

Competitors for these products are OEM’s such as JDS Uniphase, Rohde and Schwarz, Anritzu, Panasonic, and Berkley Varitronics.

**Other Business Activities and Developments**

On January 5, 2011, the Company formed PCTEL Secure LLC (“PCTEL Secure”), a joint venture limited liability company with Eclipse Design Technologies, Inc. The Company contributed \$2.5 million in cash on this date in return for 51% ownership of PCTEL Secure. The joint venture will provide engineering services and design platforms that enable secure applications.

On January 4, 2008, we sold our Mobility Solutions Group (“MSG”) to Smith Micro Software, Inc. (NASDAQ: SMSI) (“Smith Micro”). MSG produced mobility software products for Wi-Fi, cellular, IP Multimedia Subsystem (“IMS”), and wired applications. As required by GAAP, the consolidated financial statements separately reflect the MSG operations as discontinued operations for all periods presented.

**Major Customers**

One customer has accounted for revenue greater than 10% during the last three fiscal years as follows:

<u>Customer</u>	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ascom .....	10%	10%	11%

Ascom, from which we acquired scanning receiver assets in December 2009, continues to purchase scanning receiver products from us. Ascom acquired Comarco’s WTS business in January 2009. Comarco’s scanning receiver business (“WTS scanners receivers”) was a small part of Comarco’s WTS segment.

## International Activities

The following table shows the percentage of revenues from domestic and foreign sales of our continuing operations during the last three fiscal years:

<u>Region</u>	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Europe, Middle East, & Africa . . . . .	24%	25%	25%
Asia Pacific . . . . .	11%	14%	12%
Other Americas . . . . .	9%	7%	8%
Total Foreign sales . . . . .	44%	46%	45%
Total Domestic sales . . . . .	56%	54%	55%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## Backlog

Sales of our products are generally made pursuant to standard purchase orders, which are officially acknowledged according to standard terms and conditions. The backlog, while useful for scheduling production, is not a meaningful indicator of future revenues as the order to ship cycle is extremely short.

## Research and Development

We recognize that a strong technology base is essential to our long-term success and we have made a substantial investment in engineering and research and development. We will continue to devote substantial resources to product development and patent submissions. The patent submissions are primarily for defensive purposes, rather than for potential license revenue generation. We monitor changing customer needs and work closely with our customers, partners and market research organizations to track changes in the marketplace, including emerging industry standards.

Research and development expenses include costs for hardware and related software development, prototyping, certification and pre-production costs. We spent approximately \$11.8 million, \$10.7 million, and \$10.0 million in our continuing operations for the fiscal years 2010, 2009, and 2008, respectively, in research and development.

## Sales, Marketing and Support

We supply our products to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value added resellers (“VARs”) and OEMs. PCTEL’s direct sales force is technologically sophisticated and sales executives have strong industry domain knowledge. Our direct sales force supports the sales efforts of our distributors and OEM resellers.

Our marketing strategy is focused on building market awareness and acceptance of our new products. The marketing organization also provides a wide range of programs, materials and events to support the sales organization. We spent approximately \$10.1 million, \$7.7 million, and \$10.5 million in our continuing operations for fiscal years 2010, 2009, and 2008, respectively, for sales and marketing support.

As of December 31, 2010, we employed 48 individuals as employees or consultants in sales and marketing in North America, Europe, Asia, and in Latin America. We employed 37 and 40 individuals as employees or consultants in sales and marketing at December 31, 2009 and 2008, respectively.

## Manufacturing

We do final assembly of most of our antenna products and all of our OEM receiver and interference management product lines. We also have arrangements with several contract manufacturers but are not dependent on any one. If any of our manufacturers are unable to provide satisfactory services for us, other manufacturers are

available, although engaging a new manufacturer could cause unwanted delays and additional costs. We have no guaranteed supply or long-term contract agreements with any of our suppliers.

## **Employees**

As of December 31, 2010, we had 345 full-time equivalent employees, consisting of 201 in operations, 48 in sales and marketing, 65 in research and development, and 31 in general and administrative functions. Total full-time equivalent employees in continuing operations were 326 and 348 at December 31, 2009 and 2008, respectively. Headcount increased by 19 at December 31, 2010 from December 31, 2009 primarily because of increases in employees in sales and marketing and operations. None of our employees are represented by a labor union. We consider employee relations to be good.

## **Available Information**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, are available free of charge through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the "SEC"). Our website is located at the following address: [www.pctel.com](http://www.pctel.com). The information within, or that can be accessed through our website, is not part of this report. Further, any materials we file with the SEC may be read and copied by the public at the SEC's Public Reference Room, located at 450 W. Fifth Street, N.W., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1(800) SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

## **Item 1A: Risk Factors**

### **Factors That May Affect Our Business, Financial Condition and Future Operations**

*This annual report on Form 10-K, including Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", contains forward-looking statements. These forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition or results of operations to differ materially from our historical results or currently anticipated results, including those set forth below. Investors should carefully review the information contained in this Item 1A.*

### **Risks Related to Our Business**

**Competition within the wireless product industry is intense and is expected to increase significantly. Our failure to compete successfully could materially harm our prospects and financial results.**

The antenna market is highly fragmented and is served by many local product providers. We may not be able to displace established competitors from their customer base with our products.

Many of our present and potential competitors have substantially greater financial, marketing, technical and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. These competitors may succeed in establishing technology standards or strategic alliances in the connectivity products markets, obtain more rapid market acceptance for their products, or otherwise gain a competitive advantage. We can offer no assurance that we will succeed in developing products or technologies that are more effective than those developed by our competitors. We can offer no assurance that we will be able to compete successfully against existing and new competitors as the connectivity wireless markets evolve and the level of competition increases.

**Our wireless business is dependent upon the continued growth and evolution of the wireless industry.**

Our future success is dependent upon the continued growth and evolution of the wireless industry. The growth in demand for wireless products and services may not continue at its current rate or at all. Any decrease in the growth of the wireless industry could have a material adverse effect on the results of our operations.



**Challenging economic conditions worldwide have from time to time contributed, and may continue to contribute, to slowdowns in the wireless industry at large, resulting in:**

- reduced demand for our products as a result of continued constraints on corporate spending by our customers,
- increased price competition for our products,
- risk of excess and obsolete inventory,
- risk of supply constraints,
- risk of excess facilities and manufacturing capacity, and
- higher costs as a percentage of revenue and higher interest expense.

The world has experienced a global macroeconomic downturn, and if global economic and market conditions remain uncertain or deteriorate further, we may experience material impacts on our business, operating results, and financial condition.

**Our future success depends on our ability to develop and successfully introduce new and enhanced products for the wireless market that meet the needs of our customers.**

Our revenue depends on our ability to anticipate our existing and prospective customers' needs and develop products that address those needs. Our future success will depend on our ability to introduce new products for the wireless market, anticipate improvements and enhancements in wireless technology and wireless standards, and to develop products that are competitive in the rapidly changing wireless industry. Introduction of new products and product enhancements will require coordination of our efforts with those of our customers, suppliers, and manufacturers to rapidly achieve volume production. If we fail to coordinate these efforts, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our operating results will be materially and adversely affected and our business and prospects will be harmed. We cannot assure that product introductions will meet the anticipated release schedules or that our wireless products will be competitive in the market. Furthermore, given the emerging nature of the wireless market, there can be no assurance our products and technology will not be rendered obsolete by alternative or competing technologies.

**We may experience integration or other problems with potential acquisitions, which could have an adverse effect on our business or results of operations. New acquisitions could dilute the interests of existing stockholders, and the announcement of new acquisitions could result in a decline in the price of our common stock.**

We may in the future make acquisitions of, or large investments in, businesses that offer products, services, and technologies that we believe would complement our products or services, including wireless products and technology. We may also make acquisitions of or investments in, businesses that we believe could expand our distribution channels. Even if we were to announce an acquisition, we may not be able to complete it. Additionally, any future acquisition or substantial investment would present numerous risks, including:

- difficulty in integrating the technology, operations, internal accounting controls or work force of the acquired business with our existing business,
- disruption of our on-going business,
- difficulty in realizing the potential financial or strategic benefits of the transaction,
- difficulty in maintaining uniform standards, controls, procedures and policies,
- dealing with tax, employment, logistics, and other related issues unique to international organizations and assets we acquire,
- possible impairment of relationships with employees and customers as a result of integration of new businesses and management personnel, and
- impairment of assets related to resulting goodwill, and reductions in our future operating results from amortization of intangible assets.

We expect that future acquisitions could provide for consideration to be paid in cash, shares of our common stock, or a combination of cash and our common stock. If consideration for a transaction is paid in common stock, this would further dilute our existing stockholders.

**Our gross profit may vary based on the mix of sales of our products, and these variations may cause our net income to decline.**

Depending on the mix of our product sold, our gross profit could vary from quarter to quarter. In addition, due in part to the competitive pricing pressures that affect our products and in part to increasing component and manufacturing costs, we expect gross profit from both existing and future products to decrease over time. A variance or decrease of our gross profit could have a negative impact on our financial results and cause our net income to decline.

**Any delays in our sales cycles could result in customers canceling purchases of our products.**

Sales cycles for our products with major customers can be lengthy, often lasting nine months or longer. In addition, it can take an additional nine months or more before a customer commences volume production of equipment that incorporates our products. Sales cycles with our major customers are lengthy for a number of reasons, including:

- our OEM customers and carriers usually complete a lengthy technical evaluation of our products, over which we have no control, before placing a purchase order,
- the commercial introduction of our products by OEM customers and carriers is typically limited during the initial release to evaluate product performance, and
- the development and commercial introduction of products incorporating new technologies frequently are delayed.

A significant portion of our operating expenses is relatively fixed and is based in large part on our forecasts of volume and timing of orders. The lengthy sales cycles make forecasting the volume and timing of product orders difficult. In addition, the delays inherent in lengthy sales cycles raise additional risks of customer decisions to cancel or change product phases. If customer cancellations or product changes were to occur, this could result in the loss of anticipated sales without sufficient time for us to reduce our operating expenses.

**We generally rely on independent companies to manufacture, assemble and test our products. If these companies do not meet their commitments to us, or if our own assembly operations are impaired, our ability to sell products to our customers would be impaired.**

We have limited manufacturing capability. For some product lines we outsource the manufacturing, assembly, and testing of printed circuit board subsystems. For other product lines, we purchase completed hardware platforms and add our proprietary software. While there is no unique capability with these suppliers, any failure by these suppliers to meet delivery commitments would cause us to delay shipments and potentially be unable to accept new orders for product.

In addition, in the event that these suppliers discontinued the manufacture of materials used in our products, we would be forced to incur the time and expense of finding a new supplier or to modify our products in such a way that such materials were not necessary. Either of these alternatives could result in increased manufacturing costs and increased prices of our products.

We assemble our antenna products in our facilities located in Illinois and China. We may experience delays, disruptions, capacity constraints or quality control problems at our assembly facilities, which could result in lower yields or delays of product shipments to our customers. In addition, we are having a number of our antenna products manufactured in China via contract manufacturers. Any disruption of our own or contract manufacturers' operations could cause us to delay product shipments, which would negatively impact our sales, competitive reputation and position. In addition, if we do not accurately forecast demand for our products, we will have excess or insufficient parts to build our products, either of which could seriously affect our operating results.

**In order for us to operate at a profitable level and continue to introduce and develop new products for emerging markets, we must attract and retain our executive officers and qualified technical, sales, support and other administrative personnel.**

Our performance is substantially dependent on the performance of our current executive officers and certain key engineering, sales, marketing, financial, technical and customer support personnel. If we lose the services of our executives or key employees, replacements could be difficult to recruit and, as a result, we may not be able to grow our business.

Competition for personnel, especially qualified engineering personnel, is intense. We are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, background and industry experience. As of December 31, 2010, we employed a total of 65 people in our research and development department. If we lose the services of one or more of our key engineering personnel, our ability to continue to develop products and technologies responsive to our markets may be impaired.

**Failure to manage our technological and product growth could strain our management, financial and administrative resources.**

Our ability to successfully sell our products and implement our business plan in rapidly evolving markets requires an effective management planning process. Future product expansion efforts could be expensive and put a strain on our management by significantly increasing the scope of their responsibilities and by increasing the demands on their management abilities. To effectively manage our growth in these new technologies, we must enhance our marketing, sales, and research and development areas.

**We may be subject to litigation regarding intellectual property associated with our wireless business and this could be costly to defend and could prevent us from using or selling the challenged technology.**

In recent years, there has been significant litigation in the United States involving intellectual property rights. We expect potential claims in the future, including with respect to our wireless business. Intellectual property claims against us, and any resulting lawsuits, may result in our incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. These claims, regardless of their merits or outcome, would likely be time-consuming and expensive to resolve and could divert management's time and attention. This could have a material and adverse effect on our business, results of operation, financial condition and prospects. Any intellectual property litigation disputes related to our wireless business could also force us to do one or more of the following:

- cease selling, incorporating or using technology, products or services that incorporate the disputed intellectual property,
- obtain from the holder of the disputed intellectual property a license to sell or use the relevant technology, which license may not be available on acceptable terms, if at all, or
- redesign those products or services that incorporate the disputed intellectual property, which could result in substantial unanticipated development expenses.

If we are subject to a successful claim of infringement related to our wireless intellectual property and we fail to develop non-infringing intellectual property or license the infringed intellectual property on acceptable terms and on a timely basis, operating results could decline, and our ability to grow and sustain our wireless business could be materially and adversely affected. As a result, our business, financial condition, results of operation and prospects could be impaired.

We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights or to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could also result in significant expense and the diversion of technical and management personnel's attention.

**Undetected failures found in new products may result in a loss of customers or a delay in market acceptance of our products.**

To date, we have not been made aware of any significant failures in our products. However, despite testing by us and by current and potential customers, errors may be found in new products after commencement of commercial shipments, which could result in loss of revenue, loss of customers or delay in market acceptance, any of which could adversely affect our business, operating results, and financial condition. We cannot assure that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to avoid failures in our products that result in delays in product shipment, replacement costs or potential damage to our reputation, any of which could harm our business, operating results and financial condition.

**Conducting business in foreign countries involve additional risks.**

A substantial portion of our manufacturing, research and development, and marketing activities is conducted outside the United States, including the United Kingdom, Israel, Hong Kong, and China. There are a number of risks inherent in doing business in foreign countries, including: unfavorable political or economic factors; unexpected legal or regulatory changes; lack of sufficient protection for intellectual property rights; difficulties in recruiting and retaining personnel and managing international operations; and less developed infrastructure. If we are unable to manage successfully these and other risks pertaining to our international activities, our operating results, cash flows and financial position could be materially and adversely affected.

**Our financial position and results of operations may be adversely affected if tax authorities challenge us and the tax challenges result in unfavorable outcomes.**

We currently have international subsidiaries located in China, United Kingdom, and Israel as well as an international branch office located in Hong Kong. The complexities resulting from operating in several different tax jurisdictions increase our exposure to worldwide tax challenges. In the event a review of our tax filings results in unfavorable adjustments to our tax returns, our operating results, cash flows and financial position could be materially and adversely affected.

**Conducting business in international markets involves foreign exchange rate exposure that may lead to reduced profitability.**

We have current operations in United Kingdom, Israel, Hong Kong, and China. Fluctuations in the value of the U.S. dollar relative to other currencies may impact our revenues, cost of revenues and operating margins and may result in foreign currency translation gains and losses.

### **Risks Related to Our Industry**

**Our industry is characterized by rapidly changing technologies. If we are not successful in responding to rapidly changing technologies, our products may become obsolete and we may not be able to compete effectively.**

We must continue to evaluate, develop and introduce technologically advanced products that will position us for possible growth in the wireless market. If we are not successful in doing so, our products may not be accepted in the market or may become obsolete and we may not be able to compete effectively.

**Changes in laws or regulations, in particular future FCC Regulations or international regulations affecting the broadband market, internet service providers, or the communications industry, could negatively affect our ability to develop new technologies or sell new products and, therefore, reduce our profitability.**

The jurisdiction of the Federal Communications Commission (“FCC”) extends to the entire communications industry, including our customers and their products and services that incorporate our products. Future FCC regulations affecting the broadband access services industry, our customers or our products may harm our business.

For example, future FCC regulatory policies that affect the availability of data and Internet services may impede our customers' penetration into their markets or affect the prices that they are able to charge. In addition, FCC regulatory policies that affect the specifications of wireless data devices may impede certain of our customers' ability to manufacture their products profitably, which could, in turn, reduce demand for our products. Furthermore, international regulatory bodies are beginning to adopt standards for the communications industry. Although our business has not been hurt by any regulations to date, in the future, delays caused by our compliance with regulatory requirements may result in order cancellations or postponements of product purchases by our customers, which would reduce our profitability.

### **Risks Related to our Common Stock**

#### **The trading price of our stock price may be volatile based on a number of factors, many of which are not in our control.**

The trading price of our common stock has been highly volatile. The common stock price fluctuated from a low of \$4.88 to a high of \$7.07 during 2010. Our stock price could be subject to wide fluctuations in response to a variety of factors, many of which are out of our control, including:

- adverse change in domestic or global economic conditions, including the current economic crisis,
- announcements of technological innovations,
- new products or services offered by us or our competitors,
- actual or anticipated variations in quarterly operating results,
- changes in financial estimates by securities analysts,
- conditions or trends in our industry,
- our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- additions or departures of key personnel,
- mergers and acquisitions, and
- sales of common stock by our stockholders or us or repurchases by us.

In addition, the NASDAQ Global Market, where many publicly held telecommunications companies, including PCTEL, are traded, often experiences extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies.

#### **Provisions in our charter documents may inhibit a change of control or a change of management, which may cause the market price for our common stock to fall and may inhibit a takeover or change in our control that a stockholder may consider favorable.**

Provisions in our charter documents could discourage potential acquisition proposals and could delay or prevent a change in control transaction that our stockholders may favor. Specifically, our charter documents do not permit stockholders to act by written consent, do not permit stockholders to call a stockholders meeting, and provide for a classified board of directors, which means stockholders can only elect, or remove, a limited number of our directors in any given year. These provisions could have the effect of discouraging others from making tender offers for our shares, and as a result, these provisions may prevent the market price of our common stock from reflecting the effects of actual or rumored takeover attempts and may prevent stockholders from reselling their shares at or above the price at which they purchased their shares. These provisions may also prevent changes in our management that our stockholders may favor.

Our board of directors has the authority to issue up to 5,000,000 shares of preferred stock in one or more series. The board of directors can fix the price, rights, preferences, privileges and restrictions of this preferred stock without any further vote or action by our stockholders. The rights of the holders of our common stock will be

affected by, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Further, the issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock may drop.

**If we are unable to successfully maintain processes and procedures required by the Sarbanes-Oxley Act of 2002, to achieve and maintain effective internal control over our financial reporting, our ability to provide reliable and timely financial reports could be harmed and our stock price could be adversely affected.**

We must comply with the rules promulgated under Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires an annual management report assessing the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing this assessment.

While we are expending significant resources in maintaining the necessary documentation and testing procedures required by Section 404, we cannot be certain that the actions we are taking to achieve and maintain our internal control over financial reporting will be adequate. If the processes and procedures that we implement for our internal control over financial reporting are inadequate, our ability to provide reliable and timely financial reports, and consequently our business and operating results, could be harmed. This in turn could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial reports, which could cause the market price of our common stock to decline.

**Item 1B: *Unresolved Staff Comments***

None

**Item 2: *Properties***

The following table lists our main facilities:

<u>Location</u>	<u>Square feet</u>	<u>Owned/Leased</u>	<u>Lease Term</u>		<u>Purpose</u>
			<u>Beginning</u>	<u>Ending</u>	
Bloomington, Illinois . . . . .	75,517	Owned	N/A	N/A	antennas & corporate functions
Germantown, Maryland . . . . .	20,704	Leased	2006	2013	scanning receiver products
Tianjin, China . . . . .	14,747	Leased	2009	2012	antenna assembly
Beijing, China . . . . .	5,393	Leased	2010	2013	research and development
San Antonio, Texas . . . . .	4,159	Leased	2011	2016	sales office

**New facilities**

With the acquisition of Sparco, we assumed a lease for a 6,300 square foot facility used for operations and sales activities in San Antonio, Texas. We integrated the Sparco manufacturing and distribution operations in our Bloomington, Illinois facility in the third quarter 2010. When the Sparco lease terminated in January 2011, we moved the Sparco sales offices to a new location in San Antonio, Texas. The new sales office lease agreement terminates in June 2016.

In June 2010, we entered into an office lease for an antenna engineering in facility in Beijing, China. The term of the lease is through June 2013.

**Terminated facility leases**

We terminated a sales office lease in Sweden in January 2010.

All properties are in good condition and are suitable for the purposes for which they are used. We believe that we have adequate space for our current needs.

**Item 3: *Legal Proceedings***

None

**Item 4: *Reserved***

**PART II**

**Item 5: *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Price Range of Common Stock**

PCTEL’s common stock has been traded on the NASDAQ Global Market under the symbol PCTI since our initial public offering on October 19, 1999. The following table shows the high and low sale prices of our common stock as reported by the NASDAQ Global Market for the periods indicated.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2010:</b>		
Fourth Quarter . . . . .	\$6.49	\$5.72
Third Quarter . . . . .	\$6.69	\$4.88
Second Quarter. . . . .	\$7.07	\$5.04
First Quarter. . . . .	\$6.59	\$5.72
<b>Fiscal 2009:</b>		
Fourth Quarter . . . . .	\$6.60	\$5.27
Third Quarter . . . . .	\$6.80	\$4.88
Second Quarter. . . . .	\$6.44	\$4.20
First Quarter. . . . .	\$7.19	\$3.83

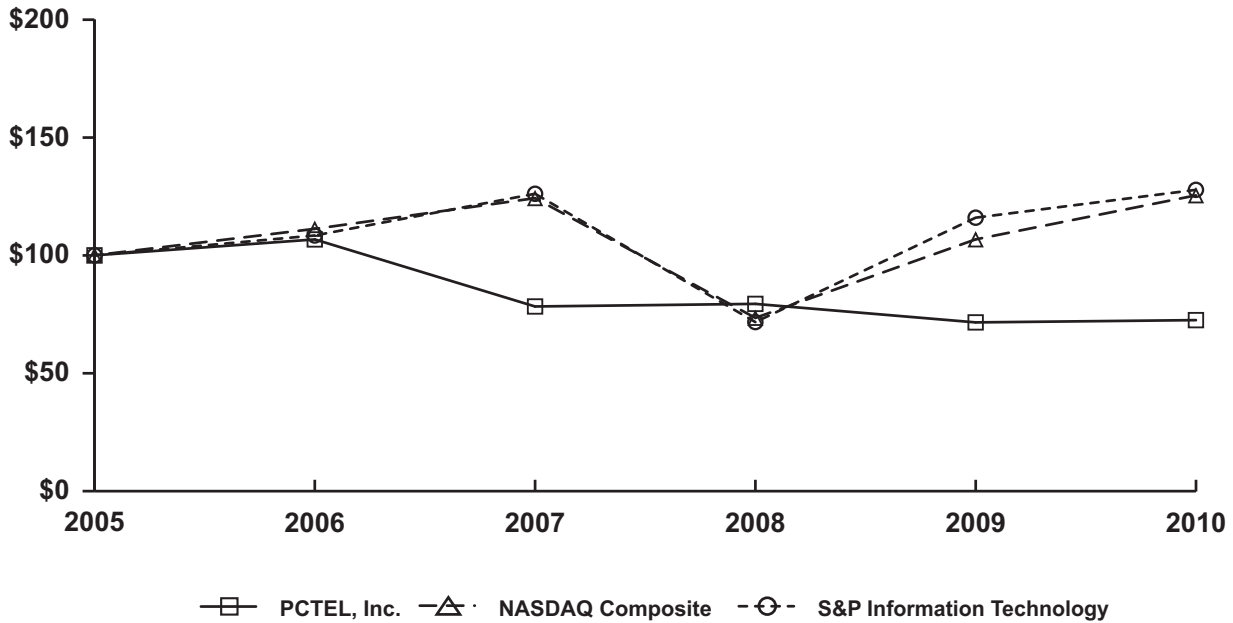
The closing sale price of our common stock as reported on the NASDAQ Global Market on March 1, 2011 was \$7.43 per share. As of that date there were 46 holders of record of the common stock. A substantially greater number of holders of the common stock are in “street name” or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

**Five-Year Cumulative Total Return Comparison**

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, this Company performance graph shall not be deemed “filed” with the SEC or “soliciting material” under the Exchange Act and shall not be incorporated by reference in any such filings.

The graph below compares the annual percentage change in the cumulative return to our stockholders with the cumulative return of the NASDAQ Composite Index and the S&P Information Technology Index for the period beginning December 31, 2005 and ending December 31, 2010. Returns for the indices are weighted based on market capitalization at the beginning of each measurement point. Note that historic stock price performance is not necessarily indicative of future stock price performance.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN \***  
**Among PCTEL, Inc., The NASDAQ Composite Index**  
**And The S&P Information Technology Index**



\* \$100 invested on 12/31/05 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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**Dividends**

We paid one cash dividend in our history in May 2008. This special dividend of \$10.3 million was a partial distribution of the proceeds received from the January 2008 sale of MSG. We do not anticipate the payment of regular dividends in the future.

**Sales of Unregistered Equity Securities**

None.



### Issuer Purchases of Equity Securities

The following table provides the activity of our repurchase program during the three months ended December 31, 2010 (in thousand, except per share amounts):

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs</u>	<u>Approximate Dollar Value of Shares That May Yet be Purchased Under the Programs</u>
October 1, 2010 — October 31, 2010 . . . . .	—	—	1,029,552	\$3,902,805
November 1, 2010 — November 30, 2010 . . . . .	162,467	\$6.27	1,192,019	\$2,884,483
December 1, 2010 — December 31, 2010 . . . . .	50,880	\$6.39	1,242,899	\$2,559,381

We repurchase shares of our common stock under share repurchase programs authorized by our Board of Directors. All share repurchase programs are announced publicly. On November 21, 2008, the Board of Directors authorized the repurchase of shares up to a value of \$5.0 million. In August 2010, we reached the authorized value limit under the November 2008 plan. On August 4, 2010, our Board of Directors authorized the repurchase of shares up to an additional value of \$5.0 million. As of December 31, 2010, we have \$2.6 million remaining to be purchased under the August 2010 program.

**Item 6: Selected Consolidated Financial Data**

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the Consolidated Financial Statements and related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. The statement of operations data for the years ended December 31, 2010, 2009, and 2008 and the balance sheet data as of December 31, 2010 and 2009 are derived from audited financial statements included elsewhere in this Form 10-K. The statement of operations data for the years ended December 31, 2007 and 2006 and the balance sheet data as of December 31, 2008, 2007, and 2006 are derived from audited financial statements not included in this Form 10-K.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenues . . . . .	\$ 69,254	\$ 56,002	\$ 76,927	\$ 69,888	\$ 76,768
Cost of revenues . . . . .	38,142	29,883	40,390	37,827	39,929
Gross profit . . . . .	<u>31,112</u>	<u>26,119</u>	<u>36,537</u>	<u>32,061</u>	<u>36,839</u>
Operating expenses:					
Research and development . . . . .	11,777	10,723	9,976	9,605	9,169
Sales and marketing . . . . .	10,095	7,725	10,515	10,723	10,993
General and administrative . . . . .	10,224	9,674	10,736	12,652	13,068
Amortization of other intangible assets . . . . .	2,934	2,225	2,062	1,987	3,593
Restructuring charges . . . . .	931	493	353	2,038	389
Impairment of goodwill and other intangible assets . . . . .	1,084	1,485	16,735	—	20,349
Loss on sale of product lines and related note receivable . . . . .	—	379	882	—	—
Royalties . . . . .	—	(400)	(800)	(1,000)	(1,000)
Total operating expenses . . . . .	<u>37,045</u>	<u>32,304</u>	<u>50,459</u>	<u>36,005</u>	<u>56,561</u>
Operating loss from continuing operations . . . . .	(5,933)	(6,185)	(13,922)	(3,944)	(19,722)
Other income, net . . . . .	<u>602</u>	<u>919</u>	<u>85</u>	<u>2,831</u>	<u>3,303</u>
Loss from continuing operations before benefit for income taxes and discontinued operations . . . . .	(5,331)	(5,266)	(13,837)	(1,113)	(16,419)
Benefit for income taxes . . . . .	<u>(1,875)</u>	<u>(783)</u>	<u>(14,996)</u>	<u>(7,226)</u>	<u>(5,371)</u>
Net income (loss) from continuing operations . . . . .	(3,456)	(4,483)	1,159	6,113	(11,048)
Net Income (loss) from discontinued operations, net of tax provision . . . . .	—	—	37,138	(82)	1,029
Net income (loss) . . . . .	<u>\$ (3,456)</u>	<u>\$ (4,483)</u>	<u>\$ 38,297</u>	<u>\$ 6,031</u>	<u>\$ (10,019)</u>
Basic earnings (loss) per share:					
Net income (loss) from continuing operations . . . . .	\$ (0.20)	\$ (0.26)	\$ 0.06	\$ 0.29	\$ (0.53)
Net income (loss) from discontinued operations . . . . .	—	—	\$ 1.94	—	\$ 0.05
Net income (loss) . . . . .	\$ (0.20)	\$ (0.26)	\$ 2.00	\$ 0.29	\$ (0.48)
Diluted earnings (loss) per share:					
Net income (loss) from continuing operations . . . . .	\$ (0.20)	\$ (0.26)	\$ 0.06	\$ 0.29	\$ (0.53)
Net income (loss) from discontinued operations . . . . .	—	—	\$ 1.93	—	\$ 0.05
Net income (loss) . . . . .	\$ (0.20)	\$ (0.26)	\$ 1.99	\$ 0.28*	\$ (0.48)
Dividends per common share . . . . .	—	—	\$ 0.50	—	—
Shares used in computing basic earnings (loss) per share . . . . .	17,408	17,542	19,158	20,897	20,810
Shares used in computing diluted earnings (loss) per share . . . . .	17,408	17,542	19,249	21,424	20,810
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments . . . . .	\$ 61,144	\$ 63,439	\$ 62,601	\$ 65,575	\$ 70,771
Working capital . . . . .	78,860	78,889	82,046	85,449	84,779
Total assets . . . . .	130,565	129,218	135,506	135,879	132,617
Total stockholders’ equity . . . . .	116,655	121,068	125,318	124,567	120,693

\* EPS numbers not additive due to rounding

## **Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, among other things, statements concerning our future operations, financial condition and prospects, and business strategies. The words "believe", "expect", "anticipate" and other similar expressions generally identify forward-looking statements. Investors in the registrant's common stock are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are subject to substantial risks and uncertainties that could cause our future business, financial condition, or results of operations to differ materially from the historical results or currently anticipated results. Investors should carefully review the information contained in "Item 1A: Risk Factors" and elsewhere in, or incorporated by reference into, this report.*

Our 2010 revenues increased by \$13.3 million, or 23.7%, to \$69.3 million as compared to 2009, primarily due to overall improvements in the global economy and the resulting increase in spending by our customers. We recorded an operating loss of \$5.9 million in 2010, \$0.3 million lower than the operating loss recorded in 2009. The improvement in our operating loss was due an increase in our gross profit of \$5.0 million, offsetting increased operating expenses of \$4.7 million. We recorded a net loss of \$3.5 million in 2010 compared to a net loss of \$4.5 million for 2009. Our loss before taxes was approximately \$5.3 million in both 2010 and 2009, but because of a higher tax benefit of \$1.1 million in 2010 compared to 2009, our net loss improved by approximately \$1.0 in 2010 compared to 2009.

### **Introduction**

PCTEL is a global leader in propagation and optimization solutions for the wireless industry. We design and develop software-based radios (scanning receivers) for wireless network optimization and develop and distribute innovative antenna solutions. Additionally, we have licensed our intellectual property, principally related to a discontinued modem business, to semiconductor, PC manufacturers, modem suppliers, and others.

Revenue growth for antenna products is driven by emerging wireless applications in the following markets: public safety, military, and government applications; SCADA, health care, energy, smart grid and agricultural applications; indoor wireless, wireless backhaul, and cellular applications. Revenue growth for scanning receiver and interference management products is driven by the deployment of new wireless technology and the need for wireless networks to be tuned and reconfigured on a regular basis.

We have an intellectual property portfolio related to antennas, the mounting of antennas, and scanning receivers. These patents are being held for defensive purposes and are not part of an active licensing program.

While we have both scanning receiver and antenna product lines, we operate in one business segment. The product lines share sufficient management and resources that the financial reporting, upon which the CODM relies for allocating resources and assessing performance, is based on company-wide data. In the continuing operations for the year ended December 31, 2008 we had a reporting segment that licensed an intellectual property portfolio in the area of analog modem technology. However, as of June 30, 2009, the revenues and cash flows associated with Licensing were substantially complete, and the CODM ceased reviewing the financial information for Licensing. The Company, therefore, determined to cease treating licensing of such intellectual property as a separate business segment.

On January 4, 2008, we sold MSG to Smith Micro Software, Inc. (NASDAQ: SMSI). MSG produced mobility software products for WiFi, cellular, IMS, and wired applications. As required by GAAP, the consolidated financial statements separately reflect the MSG operations as discontinued operations for all periods presented.

### **Current Economic Environment**

General domestic and global economic conditions have negatively impacted our financial results due to reduced corporate spending, and decreased consumer confidence. These economic conditions have negatively impacted several elements of our business and have resulted in our facing one of the most challenging periods in our history. It is uncertain how long the current economic conditions will last or how quickly any subsequent economic

recovery will occur. If the economic recovery is slow to occur, our business, financial condition and results of operations could be further materially and adversely affected.

## Results of Operations for Continuing Operations

*Years ended December 31, 2010, 2009 and 2008 (All amounts in tables, other than percentages, are in thousands)*

### Revenues

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues . . . . .	\$69,254	\$56,002	\$76,927
Percent change from prior year . . . . .	23.7%	(27.2)%	10.1%

Revenues were approximately \$69.3 million for the year ended December 31, 2010, an increase of 23.7% from the prior year. In the year ended December 31, 2010 versus the prior year, approximately 20% of the increase in revenues is attributable to antennas and approximately 4% of the increase in revenues is attributable to scanning receivers. Revenue from our acquisitions as well as organic growth contributed to the increases in revenues. The improvement in antenna revenues in 2010 compared to 2009 reflects significantly stronger volume in our targeted vertical markets. Antenna sales improved to both our large distributors and to OEM resellers of our antennas. The increase in revenues of our scanning receivers in 2010 was primarily due to a general recovery in wireless test and measurement spending levels. We saw sales increases through our value added resellers, such as Ascom, Anite plc, and SwissQual AG.

Revenues were approximately \$56.0 million for the year ended December 31, 2009, a decrease of 27.2% from the prior year. In the year ended December 31, 2009 versus the prior year, approximately 17% of the decline is attributable to antennas and approximately 10% of the decline is attributable to scanning receivers. Antenna revenues were lower in both our distribution and OEM channels, reflecting particular softness in land mobile radio systems, delays in the mobile WiMAX rollout, and defense related antenna sales. Scanning receiver revenues were lower due to reduced capital expenditures levels worldwide and due to delays in carrier spending caused by the transition from Evolution Data Optimized (“EVDO”) to the LTE technology standard for communication networks.

### Gross Profit

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Gross profit . . . . .	\$31,112	\$26,119	\$36,537
Percentage of revenues . . . . .	44.9%	46.6%	47.5%
Percent change from prior year . . . . .	(1.7)%	(0.9)%	1.6%

Gross profit as a percentage of total revenue was 44.9% in 2010 compared to 46.6% in 2009 and 47.5% in 2008. The margin percentage decrease is related to the relative revenue performance of our lower margin antenna products versus our higher margin scanning receiver products. Lower product margin contributed 0.3% of the margin percentage decrease and product mix contributed 1.4% of the margin percentage decrease for the year ended December 31, 2010 compared to the year ended December 31, 2009.

The gross margin percentage decrease in 2009 reflects the cost of lower overall volume over our fixed costs. Scanning receivers contributed approximately 0.5% of the margin percentage decrease and antennas contributed approximately 0.4% of the margin percentage decrease for the year ended December 31, 2009 compared to the year ended December 31, 2008.

### Research and Development

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Research and development . . . . .	\$11,777	\$10,723	\$9,976
Percentage of revenues . . . . .	17.0%	19.1%	13.0%
Percent change from prior year . . . . .	9.8%	7.5%	3.9%

Research and development expenses increased \$1.1 million from 2009 to 2010. In 2010, expenses increased \$0.5 million related to the acquisition of the Ascom scanning receiver business and \$0.6 million for product development, primarily for the launch of our MX scanning receiver platform.

Research and development expenses increased \$0.7 million from 2008 to 2009. Expenses were higher in 2009 compared to the prior year because we invested in the development of MX scanning receiver platform and because we incurred expense for the integration of the antenna product lines acquired from Wi-Sys in January 2009.

We had 65, 75, and 67 full-time equivalent employees from continuing operations in research and development at December 31, 2010, 2009, and 2008, respectively.

### Sales and Marketing

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Sales and marketing . . . . .	\$10,095	\$7,725	\$10,515
Percentage of revenues . . . . .	14.6%	13.8%	13.7%
Percent change from prior year . . . . .	30.7%	(26.5)%	(1.9)%

Sales and marketing expenses include costs associated with the sales and marketing employees, sales representatives, product line management, and trade show expenses.

Sales and marketing expenses increased \$2.4 million from 2009 to 2010. Sales and marketing expenses increased due to \$0.7 million related to acquisition of Sparco, \$0.6 million for increases in commissions and variable compensation related to higher revenues, and \$1.1 million related to vertical markets and other sales investments.

Sales and marketing expenses decreased \$2.8 million from 2008 to 2009 due to full year impact of headcount reductions and office closures in several unproductive international sales offices and due to lower commissions to sales people and manufacturers representatives. The headcount reductions occurred in the third and fourth quarters of 2008.

We had 48, 37, and 40 full-time equivalent employees from continuing operations in sales and marketing at December 31, 2010, 2009, and 2008, respectively.

### General and Administrative

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General and administrative. . . . .	\$10,224	\$9,674	\$10,736
Percentage of revenues . . . . .	14.8%	17.3%	14.0%
Percent change from prior year . . . . .	5.7%	(9.9)%	(15.1)%

General and administrative expenses include costs associated with the general management, finance, human resources, information technology, legal, public company costs, and other operating expenses to the extent not otherwise allocated to other functions.

General and administrative expenses increased \$0.6 million from 2009 to 2010. This expense increase includes \$0.7 million for higher stock-based compensation expense for employees in general and administrative functions and \$0.4 million expense for the 2010 short-term incentive plan, offsetting reductions of \$0.2 for legal expenses and \$0.3 million for corporate and other administrative costs.

General and administrative expenses decreased \$1.1 million from 2008 to 2009. The expense decrease was due to \$0.7 million lower stock compensation expense for employees in general and administrative functions and \$0.4 million due to net corporate cost reductions.

We had 31, 34, and 36 full-time equivalent employees in general and administrative functions at December 31, 2010, 2009, and 2008, respectively.

### Amortization of Other Intangible Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Amortization of other intangible assets . . . . .	\$2,934	\$2,225	\$2,062
Percentage of revenues . . . . .	4.2%	4.0%	2.7%

The amortization of other intangible assets relates to our acquisitions from 2003 through 2010. Amortization expense increased by \$0.7 million in 2010 compared to 2009 due to \$1.5 million of additional amortization expense from our acquisitions in 2009 and 2010, offsetting \$0.8 million of lower amortization expense because assets from the MAXRAD acquisition and from the product lines acquired from Andrew became fully amortized in 2010. The additional amortization expense of \$1.5 million in 2010 consists of \$0.7 million related to the assets acquired from Ascom in December 2009, \$0.6 million related to the assets acquired from Sparco in January 2010, and \$0.2 million related to the assets acquired as part of the settlement of the intellectual property dispute with Wider in December 2009. At December 31, 2010 we also impaired certain intangible assets related to the Ascom acquisition and the Wider settlement. See the impairment of goodwill and other intangible assets in Item 7 for additional information.

Amortization expense increased by \$0.2 million in 2009 compared to 2008 due to additional amortization expense related to the acquisition of the product lines from Bluewave in March 2008 and the acquisition of Wi-Sys in January 2009

### Restructuring Charges

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Restructuring charges . . . . .	\$931	\$493	\$353
Percentage of revenues . . . . .	1.3%	0.9%	0.5%

The 2010 restructuring expense consists of \$0.8 million related to our functional reorganization and \$0.1 million for the shutdown and relocation of our Sparco operations. During the second quarter 2010, we reorganized from a business unit structure to a more streamlined functional organizational structure to implement our mission. Mr. Jeff Miller, who previously led our Antenna Products Group, was assigned to the position of Senior Vice President, Sales and Marketing. Mr. Anthony Kobrinetz joined us in April 2010 as Vice President, Technology and Operations. A restructuring plan was established to reduce the overhead and operating costs associated with operating distinct groups. The restructuring plan consisted of the elimination of twelve positions. The restructuring expense of \$0.8 million includes severance, payroll related benefits and placement services. During the third quarter 2010, we shutdown our Sparco operations other than our sales office in San Antonio, Texas and integrated these manufacturing and distribution activities in our Bloomingdale, Illinois facility. The restructuring plan consisted of the elimination of five positions. We incurred restructuring expense of \$0.1 million for severance, payroll benefits, and other relocation costs during 2010.

The 2009 restructuring expense includes \$0.3 million for Bloomingdale antenna restructuring and \$0.2 million for Wi-Sys restructuring. In order to reduce costs with the antenna operations in the Bloomingdale, Illinois location, we terminated thirteen employees during the three months ended March 31, 2009 and terminated five additional employees during the three months ended June 30, 2009. We recorded \$0.3 million in restructuring expense for severance payments for these eighteen employees. During the second quarter 2009, we exited the Ottawa, Canada location related to the Wi-Sys acquisition and integrated those operations in to our Bloomingdale, Illinois location. The restructuring expense of \$0.2 million relates to employee severance, lease termination, and other shut down costs.

The 2008 restructuring expense includes \$0.3 million for corporate overhead restructuring and \$0.1 million for international sales office restructuring. In the first quarter of 2008, we incurred restructuring expense of \$0.3 million for employee severance costs related to reductions in corporate overhead. In November 2008, we announced the closure of our sales office in New Delhi, India, effective December 2008. We incurred restructuring charges of \$0.1 million for severance payouts and lease obligations.

**Impairment of Goodwill and Other Intangible Assets**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Impairment of goodwill and other intangible assets . . . . .	\$1,084	\$1,485	\$16,735
Percentage of revenues . . . . .	1.6%	2.7%	21.8%

In December 2010, we recorded an impairment of other intangible assets of \$1.1 million. The impairment expense included \$0.9 million for an impairment of the distribution rights and trade name acquired in the Wider settlement, and \$0.2 million for a partial impairment of the technology and non-compete agreements acquired from Ascom. The 2010 revenues resulting from the products acquired from Ascom and the products related to the settlement with Wider were significantly lower than our revenue projections used in the original accounting valuations. We considered these revenue variances as a triggering event that the carrying value of the long lived intangible assets subject to amortization may not be fully recoverable and may be less than the fair value at December 31, 2010.

In March 2009, we recorded goodwill impairment of \$1.5 million. The goodwill impairment includes \$0.4 million of goodwill remaining from our Licensing business and \$1.1 million in goodwill recorded with the Wi-Sys acquisition in January 2009. We tested our goodwill for impairment because our market capitalization was below our book value at March 31, 2009. We considered this market capitalization deficit as a triggering event.

In 2008, we recorded a goodwill impairment of \$16.7 million based on the results from our annual test of goodwill impairment.

See the discussion of this goodwill impairment within the critical accounting estimates section of Item 7.

**Loss on Sale of Product Lines and Related Note Receivable**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Loss on sale of product lines and related note receivable . . . . .	\$—	\$379	\$882
Percentage of revenues . . . . .	—	0.7%	1.1%

In 2009, we reserved for a \$0.4 million outstanding receivable balance from SWTS due to uncertainty of collection. The reserve was recorded as a loss on sale of product line and related note receivable in the consolidated statements of operations. The related note was formally written-off and cancelled on March 4, 2010.

In the fourth quarter of 2008 we sold certain antenna products and related assets to SWTS. SWTS purchased the intellectual property, dedicated inventory, and certain fixed assets related to four of our antenna product families for \$0.7 million, payable in installments at close and over a period of 18 months. The four product families represent the last remaining products acquired by us through our acquisition of Sigma in July 2005. SWTS and Sigma are unrelated. In the year ended December 31, 2008, we recorded a \$0.9 million loss on sale of product lines, separately within operating expenses in the consolidated statements of operations. The net loss included the book value of the assets sold to SWTS, impairment charges, and incentive payments due to the new employees of SWTS, net of the proceeds due to us. We sold inventory with a net book value of \$0.8 million and wrote off intangible assets including goodwill of \$0.5 million. The intangible asset write-off was the net book value and the goodwill write-off was a pro-rata portion of goodwill. We paid incentive payments of \$0.1 million and calculated \$0.5 million in proceeds based on the principal value of the installment payments excluding imputed interest.

**Royalties**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Royalties . . . . .	\$—	\$400	\$800
Percentage of revenues . . . . .	—	0.7%	1.0%

In May 2003, we completed the sale of certain of our assets to Conexant Systems, Inc. (“Conexant”). Concurrent with this sale of assets, we entered into a patent licensing agreement with Conexant. We received royalties under this agreement on a quarterly basis through June 30, 2009. The royalty payments under this agreement were completed on June 30, 2009, and we do not expect any additional royalties.

**Other Income, Net**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Other income, net . . . . .	\$602	\$919	\$ 85
Percentage of revenues . . . . .	0.9%	1.6%	0.1%

Other income, net, consists of interest income, investment gains and losses, foreign exchange gains and losses, interest expense, and miscellaneous income. For the year ended December 31, 2010, other income, net consisted of approximately \$0.4 million of interest income, approximately \$0.3 million of miscellaneous income, and foreign exchange losses of \$42. The miscellaneous income is primarily related to the write-off of contingent consideration associated with the Ascom acquisition. The liabilities related to revenue targets in 2010 and 2011. The revenue target for 2010 was not met, and as of December 31, 2010, we determined that the revenue target for 2011 would more than likely not be met.

For the year ended December 31, 2009, other income, net consisted of approximately \$.06 million of interest income, approximately \$0.3 million on realized investment gains, and foreign exchange losses of \$57. The realized gains were from liquidations of our positions in the Columbia Strategic Cash Portfolio fund with Bank of America (“CSCP”). We recorded investment gains from the CSCP of \$0.3 million in the year ended December 31, 2009 and investment losses from the CSCP of \$2.4 million in the year ended December 31, 2008. The CSCP fund was closed to new subscriptions or redemptions in December 2007, resulting in our inability to immediately redeem our investments for cash. The fund was fully liquidated in December 2009.

For the year ended December 31, 2008, other income, net consisted of approximately \$2.6 million, investment losses from the CSCP of approximately \$2.4 million, and foreign exchange losses of \$136. Interest income declined in 2010 compared to both 2009 due to lower interest rates and interest income declined in 2009 compared to 2008 due to lower interest rates and lower average cash balances.

**Benefit for Income Taxes**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Benefit for income taxes . . . . .	\$1,875	\$ 783	\$14,996
Effective tax rate . . . . .	35.2%	14.9%	108.4%

The effective tax rate was approximately equal to the Federal statutory rate of 35% during 2010. The effective tax rate differed from the statutory Federal rate of 35% by approximately 20% during 2009 primarily due to foreign taxes, a rate change to our deferred tax assets, and the non-tax deductibility for the Wi-Sys goodwill impairment. These items accounted for 6%, 6%, and 8% of this rate difference, respectively. Our statutory rate is 35% because we paid U.S. taxes in 2008 at the 35% rate, and we will carry back our 2009 tax losses against the 2008 taxes paid.

The effective tax rate differed from the statutory Federal rate of 35% by approximately 73% during 2008 primarily due to the release of our valuation allowance of \$9.8 million. The release of the valuation allowance accounted for 71% of this rate difference. We reversed our valuation allowance because our projected income is more than adequate to offset our deferred tax assets remaining after disposition of the Sigma assets in the third quarter 2008.

At December 31, 2010, we net deferred tax assets of \$10.7 million and a valuation allowance of \$0.7 million against the deferred tax assets. We maintain a valuation allowance due to uncertainties regarding realizability. The valuation allowance at December 31, 2010 relates to deferred tax assets in tax jurisdictions in which we no longer have significant operations. Significant management judgment is required to assess the likelihood that our deferred tax assets will be recovered from future taxable income, and the carryback available to offset against prior year gains. On a regular basis, management evaluates the recoverability of deferred tax assets and the need for a valuation allowance.

**Net Income from Discontinued Operations, Net of Tax Provision**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income from discontinued operations, net of tax provision . . . . .	\$—	\$—	\$37,138



In January 2008, we completed the sale of our MSG division to Smith Micro in accordance with an Asset Purchase Agreement (the “Smith Micro APA”) entered into between Smith Micro and us and publicly announced on December 10, 2007. Under the terms of the Smith Micro APA, Smith Micro purchased substantially all of the assets of the MSG division for total consideration of \$59.7 million in cash. In the transaction, we retained the accounts receivable, non customer-related accrued expenses and accounts payable of the division. Substantially all of the employees of MSG continued as employees of Smith Micro in connection with the completion of the acquisition. The results of operations of MSG have been classified as discontinued operations.

The sale of MSG in January 2008 qualified as a discontinued operation for the year ended December 31, 2008. The results of MSG have been excluded from our continuing operations and reported separately as discontinued operations. See also Note 3 in the notes to the consolidated financial statements for additional information on discontinued operations.

Discontinued operations for the year ended December 31, 2008 included the gain on the sale of MSG of \$60.3 million in addition to net loss from operations of \$0.3 million and income tax expense of \$22.8 million. The loss of \$82 from discontinued operations in 2007 included the full year of revenues and expenses. The expenses included \$0.8 million in costs for professional services in the fourth quarter 2007 associated with the sale of MSG. There was no activity related to discontinued operations in 2009 or 2010.

### Liquidity and Capital Resources

	Years Ended December 31,		
	2010	2009	2008
Net (loss) income from continuing operations . . . . .	\$ (3,456)	\$ (4,483)	\$ 1,159
Charges for depreciation, amortization, stock-based compensation, and other non-cash items . . . . .	9,718	8,202	25,254
Changes in operating assets and liabilities . . . . .	(2,910)	4,171	(3,425)
Net cash provided by operating activities . . . . .	3,352	7,890	22,988
Net cash used in investing activities . . . . .	(10,465)	(15,060)	(2,290)
Net cash used in financing activities . . . . .	(4,463)	(2,082)	(40,916)
Net cash provided by discontinued operations . . . . .	—	—	38,477
Cash and cash equivalents at the end of the year . . . . .	\$ 23,998	\$ 35,543	\$ 44,766
Short-term investments at the end of the year . . . . .	37,146	27,896	17,835
Long-term investments at the end of the year . . . . .	9,802	12,135	15,258
Short-term borrowings at the end of the year . . . . .	—	—	—
Working capital at the end of the year . . . . .	\$ 78,860	\$ 78,889	\$ 82,046

### Liquidity and Capital Resources Overview

At December 31, 2010, our cash and investments were approximately \$70.9 million, of which \$9.8 million are classified as long term assets as they have maturities from 13 to 24 months, and we had working capital of approximately \$78.9 million. Our primary source of liquidity is cash provided by operations, with short term swings in liquidity supported by a significant balance of cash and short-term investments. The balance has fluctuated with cash from operations, acquisitions and divestitures, and the repurchase of our common shares.

Within operating activities, we are historically a net generator of operating funds from our income statement activities and a net user of operating funds for balance sheet expansion. We expect this historical trend to continue in the future. Fiscal year 2009 was an exception as we generated operating funds from the balance sheet as working capital declined with revenues.

Within investing activities, capital spending historically ranges between 3% and 5% of our revenue. The primary use of capital is for manufacturing and development engineering requirements. We historically have significant transfers between investments and cash as we rotate our large cash and short-term investment balances between money market funds, which are accounted for as cash equivalents, and other investment vehicles. We have a history of supplementing our organic revenue growth with acquisitions of product lines or companies, resulting in significant uses of our cash and investments from time to time. We expect the historical trend for capital spending

and the variability caused by moving money between cash and investments and periodic merger and acquisition activity to continue in the future.

Within financing activities, we have historically generated funds from the exercise of stock options and proceeds from the issuance of common stock through our employee stock purchase plan (“ESPP”) and used funds to repurchase shares of our common stock through our share repurchase programs. Whether this activity results in our being a net user of funds versus a net generator of funds largely depends on our stock price during any given year.

We believe that the existing sources of liquidity, consisting of cash, short-term investments and cash from operations, will be sufficient to meet our working capital needs for the foreseeable future. We continue to evaluate opportunities for development of new products and potential acquisitions of technologies or businesses that could complement the business. We may use available cash or other sources of funding for such purposes.

#### Operating Activities:

We generated \$3.4 million of funds from operating activities for the year ended December 31, 2010. The income statement was a net generator of \$6.3 million of funds and changes in the balance sheet was a net user of \$2.9 million of funds. The increase in accounts receivable accounted for a use of \$3.9 million in funds primarily because revenues increased \$3.7 million in the fourth quarter 2010 compared to the fourth quarter 2009. We generated funds of \$1.7 million and \$3.2 million from increases in accounts payable and accrued liabilities, respectively. Our accounts payable increased due to higher inventory purchases in 2010 and our accrued liabilities increased due to higher accruals for bonuses and sales commissions. We increased our inventory purchases during 2010 because of the increase in revenues.

We generated \$7.9 million of funds from operating activities for the year ended December 31, 2009. The income statement was a net generator of \$3.7 million of funds and changes in the balance sheet provided \$4.2 million of funds. Despite lower revenues in 2009, we generated cash from operations because we reduced our cash expenditures and working capital requirements. The decline in accounts receivable accounted for a source of \$4.6 million in funds primarily because revenues declined \$3.5 million in the fourth quarter 2009 compared to the fourth quarter 2008. We used funds of \$0.4 million and \$2.5 million of cash for accounts payable and accrued liabilities. Our accounts payable declined due to lower inventory purchases and our accrued liabilities declined in 2009 due to reductions in bonuses and sales commission. We lowered our inventory purchases during 2009 to correspond to the decline in revenues. We had no expense in 2009 for cash bonuses under our Short-Term Incentive Plan and we also had lower sales commissions in 2009 because of lower revenues.

We generated \$23.0 million of funds from operating activities for the year ended December 31, 2008. The income statement was a net generator of \$26.4 million of funds and the balance sheet was a net user of \$3.4 million of funds. The net collection of accounts receivables provided cash of \$2.1 million and an increase in accounts payable provided cash of \$1.5 million during 2008. The receivable collections included \$1.9 million of MSG accounts receivables from December 31, 2007 that were retained by us. We used cash of \$1.3 million on increases in inventories and \$1.6 million on decreases in other accrued liabilities. The increase in inventories was due to purchases in the fourth quarter 2008 to meet our customer commitments. The decrease in accrued liabilities is primarily due to payments for professional services incurred in December 2007 for the MSG sale.

#### Investing Activities:

Our investing activities used \$10.5 million of cash during the year ended December 31, 2010. We used \$2.1 million for the acquisition of Sparco in January 2010. We rotated \$66.0 million of cash into short and long-term investments during the year ended December 31, 2010. Redemptions and maturities of our investments in pre-refunded municipal bonds, U.S. Government Agency bonds, and corporate bonds provided \$59.1 million of cash during the year ended December 31, 2010. For the year ended December 31, 2010, our capital expenditures were \$1.3 million. The rate of capital expenditures in relation to revenues for the year ended December 31, 2010 is below the low end of our historical range. In 2011, we are implementing a new enterprise resource planning (“ERP”) system. We expect to spend approximately \$2.0 million on the new system that will standardize and upgrade our business information systems.

Our investing activities used \$15.1 million of cash during the year ended December 31, 2009. We used \$6.5 million for the acquisitions of Wi-Sys in January 2009 and for the scanning receiver assets from Ascom in December 2009. We also used \$0.8 million for the settlement with Wider in December 2009. We rotated \$31.8 million of cash into short and long-term investments during the year ended December 31, 2009. Redemptions and maturities of short-term investments provided \$25.2 million of cash during the year ended December 31, 2009. The redemptions included \$8.6 million from our shares in the CSCP and \$16.6 million from maturities and redemptions of pre-refunded municipal and U.S. Government Agency bonds. For the year ended December 31, 2009, our capital expenditures were \$1.5 million. The rate of capital expenditures in relation to revenues for the year ended December 31, 2009 is at the low end of our historical range.

We used \$2.3 million for investing activities during the year ended December 31, 2008. Redemptions from the CSCP provided \$28.0 million in funds and we rotated \$24.5 million to other short-term and long-term investments. During the year ended December 31, 2008, we used \$3.9 million for the purchase of assets from Bluewave in March 2008 and \$2.7 million for capital expenditures. Our 2008 capital expenditures included \$0.6 million for a new China design center. The China design center represents expansion of our antenna engineering capacity. In 2008, we received \$0.8 million from the sale and related royalties of our modem business to Conexant in 2003.

#### Financing Activities:

Our financing activities used \$4.5 million in cash during the year ended December 31, 2010. We used \$4.9 million to repurchase our common stock under share repurchase programs and we received \$0.4 million from shares purchased through the ESPP.

Our financing activities used \$2.1 million in cash during the year ended December 31, 2009. We used \$2.5 million to repurchase our common stock under share repurchase programs and we received \$0.4 million from shares purchased through the ESPP.

Our financing activities used \$40.9 million of funds during the year ended December 31, 2008. We used \$34.2 million to repurchase our common stock under share repurchase programs and we used \$10.3 million for a \$0.50 per share special cash dividend. We generated \$2.2 million from the proceeds from the sale of common stock related to stock option exercises and shares purchased through the ESPP. Tax benefits from stock compensation and proceeds from the sale of common stock related to stock option exercises and shares purchased through the ESPP generated \$1.4 million. In April 2008, we used \$0.1 million to repay a short-term loan for our Tianjin, China subsidiary.

#### **Contractual Obligations and Commercial Commitments**

The following summarizes our contractual obligations at December 31, 2010 for office and product assembly facility leases, office equipment leases and purchase obligations, and the effect such obligations are expected to have on the liquidity and cash flows in future periods (in thousands):

	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Operating leases:					
Facility(a) . . . . .	\$1,725	\$ 646	\$ 946	\$133	\$ 0
Equipment(b) . . . . .	138	42	96	—	—
Purchase obligations(c) . . . . .	<u>5,265</u>	<u>5,265</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total . . . . .	<u>\$7,128</u>	<u>\$5,953</u>	<u>\$1,042</u>	<u>\$133</u>	<u>\$ 0</u>

(a) Future payments for the lease of office and production facilities.

(b) Future payments for the lease of office equipment.

(c) Includes purchase orders or contracts for the purchase of inventory, as well as for other goods and services, in the ordinary course of business, and excludes the balances for purchases currently recognized as liabilities on the balance sheet.

We also have a liability related to uncertain positions for Income Taxes of \$1.2 million at December 31, 2010. We do not know when this obligation will be paid.

### **Off-Balance Sheet Arrangements**

None.

### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. Management bases its estimates and judgments on historical experience, market trends, and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

### **Revenue Recognition**

We recognize revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed and determinable, and collectability is reasonably assured. We recognize revenue for sales of the antenna products and software defined radio products, when title transfers, which is predominantly upon shipment from the factory. For products shipped on consignment, we recognize revenue upon delivery from the consignment location. Revenue recognition is also based on estimates of product returns, allowances, discounts, and other factors. These estimates are based on historical data. We believe that the estimates used are appropriate, but differences in actual experience or changes in estimates may affect future results.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at invoiced amount. We extend credit to our customers based on an evaluation of a company's financial condition and collateral is generally not required. We maintain an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on our assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. Although management believes the current allowance is sufficient to cover existing exposures, there can be no assurance against the deterioration of a major customer's creditworthiness, or against defaults that are higher than what has been experienced historically.

### **Excess and Obsolete Inventory**

We maintain reserves to reduce the value of inventory to the lower of cost or market and reserves for excess and obsolete inventory. Reserves for excess inventory are calculated based on our estimate of inventory in excess of normal and planned usage. Obsolete reserves are based on our identification of inventory where carrying value is above net realizable value. These reserves are based on our estimates and judgments regarding sales volumes, utilization, and product mix. We believe that the estimates used are appropriate, but differences in actual experience or changes in estimates may affect future results.

### **Warranty Costs**

We offer repair and replacement warranties of primarily two years for antenna products and one year for scanners and receivers. Our warranty reserve is based on historical sales and costs of repair and replacement trends. We believe that the estimates used are appropriate, but differences in actual experience or changes in estimates may affect future results.

## **Stock-based Compensation**

We recognize stock-based compensation expense for all share based payment awards in accordance with fair value recognition provisions. Under the fair value provisions, we recognize stock-based compensation expense net of an estimated forfeiture rate, recognizing compensation cost only for those awards expected to vest over requisite service periods of the awards. Stock-based compensation expense and disclosures are dependent on assumptions used in calculating such amounts. These assumptions include risk-free interest rates, expected term of the stock-based compensation instrument granted, volatility of stock and option prices, expected time between grant date and date of exercise, attrition, performance, and other factors. These factors require us to use judgment. Our estimates of these assumptions typically are based on historical experience and currently available market place data. While management believes that the estimates used are appropriate, differences in actual experience or changes in assumptions may affect our future stock-based compensation expense and disclosures.

## **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Our continuing operations have international subsidiaries located in China, United Kingdom, and Israel as well as an international branch office located in Hong Kong. The complexities brought on by operating in several different tax jurisdictions inevitably lead to an increased exposure to worldwide taxes. Should review of the tax filings result in unfavorable adjustments to our tax returns, the operating results, cash flows, and financial position could be materially and adversely affected.

We are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. A change in the assessment of the outcomes of such matters could materially impact our consolidated financial statements. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes may be required. If we ultimately determine that payment of these amounts is unnecessary, then we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is more likely than not that our positions will be sustained if challenged by the taxing authorities. To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our liabilities, our effective tax rate in a given period may be materially affected. An unfavorable tax settlement would require cash payments and may result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

## **Valuation Allowances for Deferred Tax Assets**

We establish an income tax valuation allowance when available evidence indicates that it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, we consider the amounts and timing of expected future deductions or carryforwards and sources of taxable income that may enable utilization. We maintain an existing valuation allowance until sufficient positive evidence exists to support its reversal. Changes in the amount or timing of expected future deductions or taxable income may have a material impact on the level of income tax valuation allowances. Our assessment of the realizability of the deferred tax assets requires judgment about our future results. Inherent in this estimation is the requirement for us to estimate future book and taxable income and possible tax planning strategies. These estimates require us to exercise judgment about our future results, the prudence and feasibility of possible tax planning strategies, and the economic environment in which we do business. It is possible that the actual results will differ from the assumptions and require adjustments to the allowance. Adjustments to the allowance would affect future net income.

## **Variable Interest Entities**

We consolidate variable interest entities (“VIE”) when we are the primary beneficiary. During 2008 and 2009, we evaluated the SWTS entity to determine if SWTS was a variable interest entity. Our evaluation of SWTS included assumptions on revenue and cash flows. At December 31, 2009 and 2008, respectively, we concluded that SWTS was a variable interest entity but we were not its primary beneficiary and in March 2010, our note receivable from SWTS was formally written-off and cancelled. As of March 2010, we have no relationship with SWTS.

## **Impairment Reviews of Goodwill**

We perform an annual impairment test of goodwill at the end of the first month of our fiscal fourth quarter (October 31st), or at an interim date if an event occurs or if circumstances change that would more likely than not reduce the fair value below our carrying value. The process of evaluating the potential impairment of goodwill is subjective because it requires the use of estimates and assumptions. We use both the Income approach and the Market approach for determining the fair value of the reporting unit as “step one” in the test for impairment. For the Income approach, we use the Discounted Cash Flow (“DCF”) method and for the Market approach, we use the Comparable Business (“CB”) method for determining fair value.

The DCF method considers the future cash flow projections of the business and the value of those projections discounted to the present day. The DCF method requires us to use estimates and judgments about our future cash flows. Although we base cash flow forecasts on assumptions that are consistent with plans and estimates we use to manage our business, there is considerable judgment in determining the cash flows. Assumptions related to future cash flows and discount rates involve significant management judgment and are subject to significant uncertainty.

The CB method is a valuation technique by which the fair value of the equity of a business is estimated by comparing it to publicly-traded companies in similar lines of business. The multiples of key metrics of other similar companies (revenue and/or EBITDA) are applied to the historical and/or projected results of the business being valued to determine its fair value. This method requires us to use estimates and judgments when determining comparable companies. We assess such factors as size, growth, profitability, risk, and return on investment. We believe that the accounting estimates related to valuation of goodwill is a critical accounting estimate because it requires us to make assumptions that are highly uncertain about the future cash flows of our business.

The sum of the reporting units’ fair value using the DCF and CB methods plus the fair value of our cash and investments is reconciled to the sum of our total market capitalization plus a control premium (“Adjusted Market Capitalization”). The control premium is based on the discounted cash flows associated with obtaining control of us in an acquisition of the entire company. In the event that Adjusted Market Capitalization is less than the calculated Fair Value, the negative variance is allocated back to the reporting units’ fair value in proportion to their calculated fair values under the methods previously described in order to arrive at an adjusted fair value.

While the use of historical results and future projections can result in different valuations for a company, it is a generally accepted valuation practice to apply more than one valuation technique to establish a range of values for a business. Since each technique relies on different inputs and assumptions, it is unlikely that each technique would yield the same results. However, it is expected that the different techniques would establish a reasonable range. In determining the fair value, we weigh the two methods equally because we believe both methods have an equal probability of providing an appropriate fair value.

Since we had no goodwill in 2010, a review of goodwill for impairment was not required. We performed reviews of goodwill for impairment in 2009 and 2008.

### ***2009 Goodwill Analysis***

With the acquisition of Wi-Sys in January 2009, we booked \$1.1 million of goodwill. Since our market capitalization plus a control premium during the first quarter 2009 was significantly below the book value of our net assets, including the full amount of the goodwill from the Wi-Sys acquisition during the first quarter, we considered this market capitalization deficit to be a triggering event at March 31, 2009 for the evaluation of goodwill for impairment. Because we had goodwill for our BTG and Licensing reporting units, we performed the goodwill analysis using these two reporting units.

### **Step One — DCF Method and the CB Method**

For the cash flow projections of BTG, we projected a pro-forma income statement for BTG for the five calendar years ending December 31, 2013. The cash flow projections reflected the acquisition of Wi-Sys in January 2009. In “step one”, the calculation of our fair value was higher than the carrying value of BTG at March 31, 2009. However, when applying the market capitalization deficit to the step one fair values, there was a deficit between the fair value of BTG and the carrying value of its assets. We concluded that the goodwill was impaired.

### **Step Two — Reconciliation of Reporting Units Fair Value to PCTEL’s Market Capitalization**

The market capitalization at March 31, 2009 was \$81.0 million, to which a \$6.5 million control premium (6%) was added based on the DCF of our after-tax costs of being a public company to arrive at the market capitalization plus control premium of \$87.5 million. Based on the reconciliation between BTG’s fair value and the Adjusted Market Capitalization, a negative Adjusted Market Capitalization variation condition existed at March 31, 2009. We concluded that the full amount of the goodwill was impaired at March 31, 2009. We recorded an impairment charge for \$1.1 million.

At March 31, 2009, the undiscounted cash flows of the Licensing unit were lower than the carrying amount of the net book value of the Licensing unit. We recorded impairment for the remaining \$0.4 million of goodwill from our Licensing unit.

#### ***2008 Annual Goodwill Analysis***

In 2008, we managed our business as two operating segments, BTG and Licensing. We determined these operating segments were our reporting units. We tested each reporting unit for possible goodwill impairment by comparing each reporting unit’s net book value to fair value.

### **Step One — DCF Method and the CB Method**

For the cash flow projections of BTG, we projected a pro-forma income statement for BTG for the two months ended December 31, 2008 and for the five calendar years ending December 31, 2013. In “step one”, the calculation of our fair value was lower than the carrying value of the assets of BTG at October 31, 2008. We concluded that goodwill impairment was likely.

### **Step Two — Reconciliation of Reporting Units Fair Value to PCTEL’s Market Capitalization**

The market capitalization at October 31, 2008 was \$107.2 million to which a \$6.5 million control premium (6%) was added based on the DCF of our after-tax costs of being a public company to arrive at the market capitalization plus control premium of \$113.7 million. We considered whether the market capitalization at October 31st was appropriate for use in the “step one” calculation as the market capitalization for the six months prior to the annual test date averaged \$184.1 million. We concluded that the market had not reflected the economic recession outlook in its stock price prior to October 2008. The average market capitalization for the months of October 2008 through January 2009 averaged \$113.7 million, which indicates that the decline in market capitalization in October 2008 is other than temporary. Therefore the October 31st market capitalization was used. Based on the reconciliation between BTG’s fair value and the Adjusted Market Capitalization, a negative Adjusted Market Capitalization variation condition existed in 2008. As a result of our lower market capitalization in 2008, we recorded an impairment charge for \$16.7 million. The goodwill impairment of \$16.7 million was 100% of the goodwill associated with BTG.

For Licensing, we used an undiscounted cash flow model for determining fair value. The reporting unit had stable predictable cash flow and a finite life, as the last of the modem licensing agreements contractually reach paid up status in June 2009. Given the finite life, the difference between undiscounted and discounted cash flow is immaterial. The annual tests of goodwill in the fourth quarter of 2008 did not indicate impairment was likely.

## **Impairment Reviews of Definite-Lived Intangible Assets**

Management reviews definite-lived intangible assets, investments and other long-lived assets for fair value when events or changes in circumstances indicate that their carrying values may not be fully recoverable. This analysis differs from our goodwill analysis in that a definite-lived intangible asset impairment is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the assets being evaluated is less than the carrying value of the assets. The estimate of long-term cash flows includes long-term forecasts of revenue growth, gross margins, and operating expenses. All of these items require significant judgment and assumptions. An impairment loss may exist when the estimated undiscounted cash flows attributable to the assets are less than the carrying amount. Changes in the estimates of forecasted cash flows may cause additional asset impairments, which could result in charges that are material to our results of operations.

### ***2010 Analysis***

We conducted a long-lived asset impairment analysis in the fourth quarter of 2010 because the 2010 revenues resulting from the products acquired from Ascom and the products related to the settlement with Wider were significantly lower than our revenue projections used in the original accounting valuations. We considered these revenue variances as a triggering event that the carrying value of the long lived intangible assets subject to amortization may not be fully recoverable and may be less than the fair value at December 31, 2010. The evaluation was done on the specific assets and related cash flows to which the carrying values relate. The forecasted future undiscounted cash flows were less than the carrying value at the asset group level for the distribution rights and trade names for Wider and the in-process research and development and non-compete agreements for Ascom. Based on the results of our analysis, we recorded a \$1.1 million impairment loss at December 31, 2010. The impairment expense consisted of \$0.9 million for the intangible assets related to Wider and \$0.2 million for the intangible assets related to Ascom. Our assumptions required significant judgment and actual cash flows may differ from those forecasted.

### ***2009 Analysis***

Based on the triggering event related to our market capitalization in the first quarter 2009, we reevaluated the carrying value of the intangible assets. We concluded that there was no impairment of other intangible assets in relation to the test at March 31, 2009. There was no triggering event in the second, third, or fourth quarters of 2009.

### ***2008 Analysis***

We conducted a long-lived asset impairment analysis in the fourth quarter of 2008 because our annual impairment test for goodwill in 2008 yielded an impairment of BTG's goodwill in the amount of \$16.7 million. While there is no direct market price comparison available for BTG's intangible assets, we believed that the indicated fair value deficit in the calculation beyond the goodwill balance was an indication that there may be a significant market price decline in the intangible assets.

We tested the intangible asset balances at October 31, 2008 to determine whether the carrying value of the intangible assets exceeds their "fair value". "Fair value" means the discounted cash flows expected to result from the use of the asset over its life. The BTG intangible assets with remaining book balances subject to amortization at October 31, 2008 were the trademarks, technology, and customer relationships associated with the acquisitions of the MAXRAD®, Andrew, and Bluewave™ antenna products. The evaluation was done on the specific assets or asset groups and related cash flows to which the carry values relate. The forecasted future undiscounted cash flows were greater than the carrying value at the asset group level for all three intangible asset groups. The results of the analysis lead us to conclude that no impairment loss shall be recognized at December 31, 2008. Additionally, there is nothing in the analysis and underlying worksheets that would lead management to conclude that there should be a revision of the original amortization period contemplated for the assets. Our assumptions required significant judgment and actual cash flows may differ from those forecasted.



## **Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASC) No. 2010-06, “Improving Disclosures about Fair Value Measurements,” which amends the Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures.” ASU No. 2010-06 amends the ASC to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and requires more detailed disclosure about the activity within Level 3 fair value measurements. The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. The guidance requires expanded disclosures only, and will not have any impact on our consolidated financial statements

### **Item 7A: *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk from changes in interest rates, foreign exchange rates, credit risk, and investment risk as follows:

#### **Interest Rate Risk**

We manage the sensitivity of our results of operations to interest rate risk on cash equivalents by maintaining a conservative investment portfolio. The primary objective of our investment activities is to preserve principal without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term investments, and long-term investments in AAA money market funds, pre-refunded municipal bonds, U.S. government agency bonds or AAA money market funds invested exclusively in government agency bonds and AA or higher rated corporate bonds. Our cash in U.S. banks is fully insured by the Federal Deposit Insurance Corporation (“FDIC”).

Due to changes in interest rates, our future investment income may fall short of expectations. A hypothetical increase or decrease of 10% in market interest rates would not result in a material decrease in interest income earned through maturity on investments held at December 31, 2010. We do not hold or issue derivatives, derivative commodity instruments or other financial instruments for trading purposes.

#### **Foreign Currency Risk**

We are exposed to currency fluctuations due to our foreign operations and because we sell our products internationally. We manage the sensitivity of our international sales by denominating the majority of transactions in U.S. dollars. If the United States dollar uniformly increased or decreased in strength by 10% relative to the currencies in which our sales were denominated, our net loss would not have changed by a material amount for the year ended December 31, 2010. For purposes of this calculation, we have assumed that the exchange rates would change in the same direction relative to the United States dollar. Our exposure to foreign exchange rate fluctuations, however, arises in part from translation of the financial statements of foreign subsidiaries into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability.

We had \$0.7 million of cash in foreign bank accounts at December 31, 2010. As of December 31, 2010, we had no intention of repatriating the cash in our foreign bank accounts to the U.S. If we decide to repatriate the cash in foreign bank accounts, we may experience difficulty in repatriating this cash in a timely manner. We may also be exposed to foreign currency fluctuations and taxes if we repatriate these funds.

#### **Credit Risk**

The financial instruments that potentially subject us to credit risk consist primarily of trade receivables. For trade receivables, credit risk is the potential for a loss due to a customer not meeting its payment obligations. Our customers are concentrated in the wireless communications industry. Estimates are used in determining an allowance for amounts which we may not be able to collect, based on current trends, the length of time receivables are past due and historical collection experience. Provisions for and recovery of bad debts are recorded as sales and

marketing expense in the consolidated statements of operations. We perform ongoing evaluations of customers' credit limits and financial condition. Generally, we do not require collateral from customers. As of December 31, 2010 one customer accounts receivable balance represented 14% of gross receivables and no other customer accounts receivable balance represented greater than 10% of gross receivables. At December 31, 2009, no customer accounts receivable balance represented greater 10% or greater of gross receivable. Our allowances for potential credit losses have historically been adequate compared to actual losses. One customer represented 10% of our revenues in both 2010 and 2009.

### **Investment Risk**

On December 22, 2009, we received the final redemption from our investment in the Columbia Strategic Cash Portfolio fund with Bank of America ("CSCP"). This fund was closed to new subscriptions or redemptions in December 2007, resulting in our inability to immediately redeem our investments for cash. The fair value of our investment in this fund at December 31, 2008 was \$8.6 million based on the net asset value of the fund. In the year ending December 31, 2009, we received redemptions of \$8.9 million and we realized gains of \$0.3 million from the increase in the net asset value of the fund. The gains were recorded in other income, net in our consolidated statements of operations. Through December 31, 2009, we recorded cumulative losses on our CSCP investment of \$2.6 million.

**Item 8: *Financial Statements and Supplementary Data***

**PCTEL, INC.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
PCTEL, Inc.

We have audited PCTEL, Inc. (a Delaware Corporation) and subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PCTEL, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009 and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2010 and our report dated March 16, 2011 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois  
March 16, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
PCTEL, Inc.

We have audited the accompanying consolidated balance sheets of PCTEL, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of PCTEL, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of its operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PCTEL, Inc. and subsidiaries’ internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Chicago, Illinois  
March 16, 2011

**PCTEL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents . . . . .	\$ 23,998	\$ 35,543
Short-term investment securities . . . . .	37,146	27,896
Accounts receivable, net of allowance for doubtful accounts of \$160 and \$89 at December 31, 2010 and December 31, 2009, respectively . . . . .	13,873	9,756
Inventories, net . . . . .	10,729	8,107
Deferred tax assets, net . . . . .	1,013	1,024
Prepaid expenses and other assets . . . . .	<u>3,900</u>	<u>2,541</u>
Total current assets . . . . .	90,659	84,867
PROPERTY AND EQUIPMENT, net . . . . .	11,088	12,093
LONG-TERM INVESTMENT SECURITIES . . . . .	9,802	12,135
OTHER INTANGIBLE ASSETS, net . . . . .	8,865	9,241
DEFERRED TAX ASSETS, net . . . . .	9,004	9,947
OTHER NONCURRENT ASSETS . . . . .	<u>1,147</u>	<u>935</u>
<b>TOTAL ASSETS</b> . . . . .	<u><u>\$130,565</u></u>	<u><u>\$129,218</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable . . . . .	\$ 4,253	\$ 2,192
Accrued liabilities . . . . .	<u>7,546</u>	<u>3,786</u>
Total current liabilities . . . . .	11,799	5,978
Long-term liabilities . . . . .	<u>2,111</u>	<u>2,172</u>
Total liabilities . . . . .	<u>13,910</u>	<u>8,150</u>
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 18,285,784 and 18,494,499 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively . . . . .	18	18
Additional paid-in capital . . . . .	137,154	138,141
Accumulated deficit . . . . .	(20,578)	(17,122)
Accumulated other comprehensive income . . . . .	<u>61</u>	<u>31</u>
Total stockholders' equity . . . . .	<u>116,655</u>	<u>121,068</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> . . . . .	<u><u>\$130,565</u></u>	<u><u>\$129,218</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**PCTEL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CONTINUING OPERATIONS</b>			
REVENUES . . . . .	\$ 69,254	\$ 56,002	\$ 76,927
COST OF REVENUES . . . . .	<u>38,142</u>	<u>29,883</u>	<u>40,390</u>
GROSS PROFIT . . . . .	<u>31,112</u>	<u>26,119</u>	<u>36,537</u>
<b>OPERATING EXPENSES:</b>			
Research and development . . . . .	11,777	10,723	9,976
Sales and marketing . . . . .	10,095	7,725	10,515
General and administrative . . . . .	10,224	9,674	10,736
Amortization of other intangible assets . . . . .	2,934	2,225	2,062
Restructuring charges . . . . .	931	493	353
Impairment of goodwill and other intangible assets . . . . .	1,084	1,485	16,735
Loss on sale of product lines and related note receivable . . . . .	—	379	882
Royalties . . . . .	<u>—</u>	<u>(400)</u>	<u>(800)</u>
Total operating expenses . . . . .	<u>37,045</u>	<u>32,304</u>	<u>50,459</u>
OPERATING LOSS FROM CONTINUING OPERATIONS . . . . .	(5,933)	(6,185)	(13,922)
OTHER INCOME, NET . . . . .	<u>602</u>	<u>919</u>	<u>85</u>
<b>LOSS FROM CONTINUING OPERATIONS BEFORE</b>			
INCOME TAXES AND DISCONTINUED OPERATIONS . . . . .	(5,331)	(5,266)	(13,837)
BENEFIT FOR INCOME TAXES . . . . .	<u>(1,875)</u>	<u>(783)</u>	<u>(14,996)</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS . . . . .	<u>(3,456)</u>	<u>(4,483)</u>	<u>1,159</u>
<b>DISCONTINUED OPERATIONS</b>			
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT FOR INCOME TAXES OF \$0, \$0, AND \$22,877, RESPECTIVELY . . . . .	<u>—</u>	<u>—</u>	<u>37,138</u>
NET INCOME (LOSS) . . . . .	<u>(\$3,456)</u>	<u>(\$4,483)</u>	<u>\$ 38,297</u>
<b>Basic Earnings per Share:</b>			
Net Income (Loss) from Continuing Operations . . . . .	\$ (0.20)	\$ (0.26)	\$ 0.06
Net Income from Discontinued Operations . . . . .	—	—	\$ 1.94
Net Income (Loss) . . . . .	\$ (0.20)	\$ (0.26)	\$ 2.00
<b>Diluted Earnings per Share:</b>			
Net Income (Loss) from Continuing Operations . . . . .	\$ (0.20)	\$ (0.26)	\$ 0.06
Net Income from Discontinued Operations . . . . .	—	—	\$ 1.93
Net Income (Loss) . . . . .	\$ (0.20)	\$ (0.26)	\$ 1.99
Weighted average shares — Basic . . . . .	17,408	17,542	19,158
Weighted average shares — Diluted . . . . .	17,408	17,542	19,249

The accompanying notes are an integral part of these consolidated financial statements.

**PCTEL, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
BALANCE, JANUARY 1, 2008 . . . . .	<u>\$22</u>	<u>\$165,108</u>	<u>\$(40,640)</u>	<u>\$ 77</u>	<u>\$124,567</u>
Stock-based compensation . . . . .	—	4,402	—	—	4,402
Issuance of shares for stock purchase and option plans . . . . .	—	2,239	—	—	2,239
Cancellation of shares for payment of withholding tax . . . . .	—	(1,076)	—	—	(1,076)
Repurchase of common stock . . . . .	(4)	(34,153)	—	—	(34,157)
Tax effect from stock based compensation . . . . .	—	1,410	—	—	1,410
Net income . . . . .	—	—	38,297	—	38,297
Dividend . . . . .	—	—	(10,296)	—	(10,296)
Change in cumulative translation adjustment, net . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>(68)</u>	<u>(68)</u>
BALANCE, DECEMBER 31, 2008 . . . . .	<u>\$18</u>	<u>\$137,930</u>	<u>\$(12,639)</u>	<u>\$ 9</u>	<u>\$125,318</u>
Stock-based compensation . . . . .	1	3,361	—	—	3,362
Issuance of shares for stock purchase and option plans . . . . .	—	427	—	—	427
Cancellation of shares for payment of withholding tax . . . . .	—	(822)	—	—	(822)
Repurchase of common stock . . . . .	(1)	(2,509)	—	—	(2,510)
Tax effect from stock based compensation . . . . .	—	(246)	—	—	(246)
Net loss . . . . .	—	—	(4,483)	—	(4,483)
Change in cumulative translation adjustment, net . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>22</u>	<u>22</u>
BALANCE, DECEMBER 31, 2009 . . . . .	<u>\$18</u>	<u>\$138,141</u>	<u>\$(17,122)</u>	<u>\$ 31</u>	<u>\$121,068</u>
Stock-based compensation . . . . .	1	4,609	—	—	4,610
Issuance of shares for stock purchase and option plans . . . . .	—	468	—	—	468
Cancellation of shares for payment of withholding tax . . . . .	—	(887)	—	—	(887)
Repurchase of common stock . . . . .	(1)	(4,931)	—	—	(4,932)
Tax effect from stock based compensation . . . . .	—	(246)	—	—	(246)
Net loss . . . . .	—	—	(3,456)	—	(3,456)
Change in cumulative translation adjustment, net . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>30</u>	<u>30</u>
BALANCE, DECEMBER 31, 2010 . . . . .	<u>\$18</u>	<u>\$137,154</u>	<u>\$(20,578)</u>	<u>\$ 61</u>	<u>\$116,655</u>

The accompanying notes are an integral part of these consolidated financial statements



**PCTEL, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)

	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Operating Activities:</b>			
Net (loss) income			
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Income from discontinued operations	\$ (3,456)	\$ (4,483)	\$ 38,297
Depreciation and amortization	—	—	(37,138)
Impairment charge	5,212	4,449	4,027
Gain on bargain purchase of acquisition	1,084	1,485	16,735
Gain on write-off of acquisition liabilities	(54)	—	—
Amortization of stock based compensation	(197)	—	—
(Gain) loss from short-term investments	4,610	3,362	4,204
Gain on sale of assets and related royalties	—	(356)	2,370
(Gain) loss on disposal/sale of property and equipment	—	(400)	(800)
Restructuring costs	(22)	105	77
Loss on sale of product lines and related note receivable	324	—	(1,165)
Deferred tax assets	—	379	882
Payment of withholding tax on stock based compensation	(352)	328	(4,844)
Changes in operating assets and liabilities, net of acquisitions:	(887)	(822)	(1,076)
Accounts receivable	(3,940)	4,611	2,086
Inventories	(2,396)	2,786	(1,268)
Prepaid expenses and other assets	(1,567)	(261)	(180)
Accounts payable	1,719	(424)	1,506
Income taxes payable	(233)	(413)	834
Other accrued liabilities	3,015	(2,399)	(1,557)
Deferred revenue	492	(57)	(2)
Net cash provided by operating activities	<u>3,352</u>	<u>7,890</u>	<u>22,988</u>
<b>Investing Activities:</b>			
Capital expenditures	(1,257)	(1,534)	(2,674)
Proceeds from disposal of property and equipment	18	4	35
Purchase of investments	(65,989)	(31,764)	(24,530)
Redemptions/maturities of short-term investments	59,072	25,182	28,009
Proceeds on sale of assets and related royalties	—	400	800
Purchase of assets with settlement	(200)	(800)	—
Purchase of assets/businesses, net of cash acquired	(2,109)	(6,548)	(3,930)
Net cash used in investing activities	<u>(10,465)</u>	<u>(15,060)</u>	<u>(2,290)</u>
<b>Financing Activities:</b>			
Proceeds from issuance of common stock	468	427	2,239
Payments for repurchase of common stock	(4,931)	(2,509)	(34,157)
Tax benefit from stock option exercises	—	—	1,410
Cash dividend	—	—	(10,296)
Repayments of short-term borrowings	—	—	(112)
Net cash used in financing activities	<u>(4,463)</u>	<u>(2,082)</u>	<u>(40,916)</u>
<b>Cash flows from discontinued operations:</b>			
Net cash used in operating activities	—	—	(134)
Net cash provided by investing activities	—	—	38,611
Net cash provided by financing activities	—	—	—
Net (decrease) increase in cash and cash equivalents	(11,576)	(9,252)	18,259
Effect of exchange rate changes on cash	31	29	(125)
Cash and cash equivalents, beginning of year	<u>35,543</u>	<u>44,766</u>	<u>26,632</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 23,998</u></u>	<u><u>\$ 35,543</u></u>	<u><u>\$ 44,766</u></u>
<b>Other information:</b>			
Cash paid and refunds received for income taxes	\$ 62	\$ 3	\$ 11,535
Cash paid for interest	—	1	1
Foreign currency loss	(42)	(57)	(136)
<b>Non-cash investing and financing information:</b>			
Decreases to deferred stock compensation, net	(609)	(454)	(2,829)
Issuance of restricted common stock, net of cancellations	3,675	2,260	230

The accompanying notes are an integral part of these consolidated financial statements.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended: December 31, 2010**

**1. Organization and Summary of Significant Accounting Policies**

*Nature of Operations*

PCTEL is a global leader in propagation and optimization solutions for the wireless industry. The company designs and develops software-based radios (scanning receivers) for wireless network optimization and develops and distributes innovative antenna solutions. Additionally, the Company has licensed its intellectual property, principally related to a discontinued modem business, to semiconductor, PC manufacturers, modem suppliers, and others.

On December 10, 2007, PCTEL entered into an Asset Purchase Agreement with Smith Micro Software, Inc, to sell substantially all the assets of MSG. On January 4, 2008, the Company completed the sale of Mobility Solutions Group (“MSG”). As required by GAAP, the consolidated financial statements separately reflect the MSG operations as discontinued operations for all periods presented.

The Company designs, distributes, and supports innovative antenna solutions for public safety applications, unlicensed and licensed wireless broadband, fleet management, network timing, and other global positioning systems (“GPS”) applications. The Company’s portfolio of scanning receivers and interference management solutions are used to measure, monitor and optimize cellular networks.

While the Company has both scanning receiver and antenna product lines, the Company operates in one business segment. The product lines share sufficient management and resources that the financial reporting, upon which the Chief Operating Decision Maker (“CODM”) relies upon for allocating resources and assessing performance, is based on company-wide data. In the continuing operations for the year ended December 31, 2008, the Company had a reporting segment that licensed an intellectual property portfolio in the area of analog modem technology. Beginning in 2009, the Company re-evaluated the internal financial reporting process in which the CODM does not review the financial information for Licensing. As of June 30, 2009, the revenues and cash flows associated with Licensing were substantially complete.

*Antenna Products*

PCTEL’s MAXRAD<sup>®</sup>, Bluewave<sup>™</sup> and Wi-Sys<sup>™</sup> antenna solutions address public safety, military, and government applications; supervisory control and data acquisition (“SCADA”), health care, energy, smart grid and agricultural applications; indoor wireless, wireless backhaul, and cellular applications. Revenue growth for antenna products is driven by emerging wireless applications in these markets. The Company’s portfolio includes a broad range of WiMAX antennas, land mobile radio (“LMR”) antennas, and precision GPS antennas that serve innovative applications in telemetry, radio frequency identification (“RFID”), WiFi, fleet management, and mesh networks. The Company’s antenna products are primarily sold through distributors and original equipment manufacturer (“OEM”) equipment providers.

The Company established its current antenna product portfolio with a series of acquisitions. In 2004 the Company acquired MAXRAD as well as certain product lines from Andrew, which established its core product offerings in WiFi, LMR and GPS. Over the next several years the Company added additional capabilities within those product lines and additional served markets with the acquisitions of Bluewave Antenna Systems, Ltd (“Bluewave”) in 2008, Wi-Sys Communications, Inc (“Wi-Sys”) in 2009, and Sparco Technologies, Inc. (“Sparco”) in 2010. The Company’s WiMAX antenna products were developed and brought to market through the Company’s on going operations.

In 2005, the Company purchased Sigma Wireless Technologies Limited (“Sigma”), an Irish company, in an attempt to enter the universal mobile telecommunications systems (“UMTS”) cellular antenna market. The Company exited those operations in 2007 and sold off the remaining assets in 2008.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

***Scanning Receivers***

PCTEL is a leading supplier of high-speed, multi-standard, demodulating receivers and test and measurement solutions to the wireless industry worldwide. The Company's SeeGull® scanning receivers, receiver-based products and CLARIFY® interference management solutions are used to measure, monitor and optimize cellular networks. Revenue growth for scanning receiver and interference management products is driven by the deployment of new wireless technology and the need for wireless networks to be tuned and reconfigured on a regular basis. The Company develops and supports scanning receivers for LTE, EVDO, CDMA, WCDMA, GSM, TD-SCDMA, and WiMAX networks. The company's scanning receiver products are sold primarily through test and measurement value added resellers and to a lesser extent directly to network operators.

The Company established its scanning receiver product portfolio in 2003 with the acquisition of DTI. In 2009 the Company acquired the scanning receiver business of Ascom Network Testing, Inc ("Ascom") as well as the exclusive distribution rights and patented technology for Wider Network's ("Wider") network interference products.

The Company also has an intellectual property portfolio related to antennas, the mounting of antennas, and scanning receivers. These patents are being held for defensive purposes and are not part of an active licensing program.

***Basis of Consolidation***

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

***Foreign Operations***

The Company is exposed to foreign currency fluctuations due to its foreign operations and because products are sold internationally. The functional currency for the Company's foreign operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using the year-end exchange rate for assets and liabilities and average monthly rates for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in the consolidated statements of operations. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were \$42, \$57, and \$136 in the years ended December 31, 2010, 2009 and 2008, respectively.

***Fair Value of Financial Instruments***

Cash and cash equivalents are measured at fair value and investments are recognized at amortized cost in the Company's financial statements. Accounts receivable and other investments are financial assets with carrying values that approximate fair value due to the short-term nature of these assets. Accounts payable and short-term debt are financial liabilities with carrying values that approximate fair value due to the short-term nature of these liabilities. The Company follows Fair Value Measurements and Disclosures ("ASC 820"), which establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

unobservable inputs when measuring fair value. A financial instruments categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

*Level 1:* inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

*Level 2:* inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

*Level 3:* unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

***Cash and Cash Equivalents and Investments***

***Cash and Cash equivalents***

At December 31, 2010, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At December 31, 2010 and 2009, the Company's cash equivalents were invested in highly liquid AAA money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940. Such funds utilize the amortized cost method of accounting, seek to maintain a constant \$1.00 per share price, and are redeemable upon demand. The Company restricts its investments in AAA money market funds to those invested 100% in either short term U.S. Government Agency securities or bank repurchase agreements collateralized by these same securities. The fair values of these money market funds are established through quoted prices in active markets for identical assets (Level 1 inputs). The cash in the Company's U.S. banks is fully insured by the Federal Deposit Insurance Corporation due to the balances being below the maximum insured amounts.

The Company had \$0.7 million and \$0.9 million of cash equivalents in foreign bank accounts at December 31, 2010 and 2009, respectively. As of December 31, 2010, the Company has no intention of repatriating the cash in the foreign bank accounts. If the Company decides to repatriate the cash in foreign bank accounts, it may experience difficulty in repatriating this cash in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds.

***Investments***

At December 31, 2010, the Company's short-term and long-term investments consisted of pre-refunded municipal bonds, U.S. government agency bonds, and AA or higher rated corporate bonds all classified as held-to-maturity.

During 2010, the Company had invested \$19.2 million in pre-refunded municipal bonds, \$19.0 million in U.S. government agency bonds, and \$8.7 million in AA rated or higher corporate bonds. The income and principal from the pre-refunded municipal bonds is secured by an irrevocable trust of U.S Treasury securities. The bonds, classified as short-term investments, have original maturities greater than 90 days and mature in 2011. The Company classified \$9.8 million as long-term investment securities because the original maturities were greater than one year. All of the Company's long-term investments mature in 2012. The Company's bonds are recorded at the purchase price and carried at amortized cost. The net unrealized gains were approximately \$0.2 million at December 31, 2010. Approximately 24% and 16% of the Company's bonds were protected by bond default insurance at December 31, 2010 and 2009, respectively.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

The Company categorizes its financial instruments within a fair value hierarchy established in ASC 820. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 1. Cash equivalents and investments measured at fair value were as follows at December 31:

	<u>2010</u>				<u>2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:								
Money market funds . . . . .	\$21,032	\$ —	\$—	\$21,032	\$34,933	\$ —	\$—	\$34,933
Investments:								
US government agency bonds . . .	—	19,036	—	19,036	—	18,843	—	18,843
Municipal bonds . . . . .	—	19,378	—	19,378	—	16,479	—	16,479
Corporate debt securities . . . . .	—	8,756	—	8,756	—	4,886	—	4,886
Total . . . . .	<u>\$21,032</u>	<u>\$47,170</u>	<u>\$—</u>	<u>\$68,202</u>	<u>\$34,933</u>	<u>\$40,208</u>	<u>\$—</u>	<u>\$75,141</u>

***Columbia Strategic Cash Portfolio (“CSCP”)***

On December 22, 2009, the Company received the final redemptions of its shares held in the CSCP. At December 31, 2008, the shares of the CSCP had a recorded value of approximately \$8.6 million. During the year ended December 31, 2009, the Company received approximately \$8.9 million in share liquidation payments and recorded \$0.3 million of realized gains in the statements of operations from the redemptions. The CSCP was an enhanced cash money market fund that had been negatively impacted by the recent turmoil in the credit markets. The investment was classified as available for sale and was carried at fair value. In December 2007, the CSCP was closed to new subscriptions and redemptions, and changed its method of valuing shares from the amortized cost method to the market value of the underlying securities of the fund. Starting in December 2007 and through December 31, 2009, the Company recorded cumulative losses on its CSCP investment of \$2.6 million.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are recorded at invoiced amount with standard net terms that range between 30 and 60 days. The Company extends credit to its customers based on an evaluation of a company’s financial condition and collateral is generally not required. The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company’s assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. The Company’s allowance for doubtful accounts was \$0.2 million and \$0.1 million at December 31, 2010 and 2009, respectively. The provision for doubtful accounts is included in sales and marketing expense in the consolidated statements of operations.

***Inventories***

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the first-in, first-out (“FIFO”) method of costing. Inventories as of December 31, 2010 and 2009 were composed of raw materials, sub assemblies, finished goods and work-in-process. The Company had consigned inventory of \$1.0 million and \$0.6 million at December 31, 2010 and 2009, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or market, including allowances for excess and obsolete inventory. As of December 31, 2010 and 2009, the allowance for inventory losses was \$1.0 million and \$1.2 million respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

Inventories consist of the following:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Raw materials . . . . .	\$ 7,613	\$5,836
Work in process . . . . .	542	390
Finished goods . . . . .	<u>2,574</u>	<u>1,881</u>
Inventories, net . . . . .	<u><u>\$10,729</u></u>	<u><u>\$8,107</u></u>

*Prepaid and other current assets*

Prepaid assets are stated at cost and are amortized over the useful lives (up to one year) of the assets.

*Property and Equipment*

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The Company depreciates computers over three years, office equipment and manufacturing equipment over five years, furniture and fixtures over seven years, and buildings over 30 years. Leasehold improvements are amortized over the shorter of the corresponding lease term or useful life. Depreciation expense and gains and losses on the disposal of property and equipment are included in cost of sales and operating expenses in the consolidated statements of operations. Maintenance and repairs are expensed as incurred.

Property and equipment consists of the following:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Building . . . . .	\$ 6,207	\$ 6,207
Computers and office equipment . . . . .	4,450	4,013
Manufacturing and test equipment . . . . .	7,707	7,300
Furniture and fixtures . . . . .	1,127	1,104
Leasehold improvements . . . . .	176	166
Motor vehicles . . . . .	<u>27</u>	<u>27</u>
Total property and equipment . . . . .	19,694	18,817
Less: Accumulated depreciation and amortization . . . . .	(10,376)	(8,494)
Land . . . . .	<u>1,770</u>	<u>1,770</u>
Property and equipment, net . . . . .	<u><u>\$ 11,088</u></u>	<u><u>\$12,093</u></u>

Depreciation and amortization expense was approximately \$2.3 million, \$2.2 million, and \$2.0 million for the years ended December 31, 2010, 2009, and 2008, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

*Liabilities*

Accrued liabilities consist of the following:

	December 31, 2010	December 31, 2009
Inventory receipts . . . . .	\$2,444	\$1,135
Payroll, bonuses, and other employee benefits . . . . .	1,615	415
Paid time off . . . . .	846	777
Deferred revenues . . . . .	501	9
Restructuring . . . . .	324	—
Warranties . . . . .	257	228
Employee stock purchase plan . . . . .	232	207
Professional fees . . . . .	208	199
Due to Wider . . . . .	194	194
Due to Sparco shareholders . . . . .	198	—
Real estate taxes . . . . .	148	146
Due to Ascom . . . . .	—	97
Other . . . . .	<u>579</u>	<u>379</u>
Total . . . . .	<u>\$7,546</u>	<u>\$3,786</u>

Long-term liabilities consist of the following:

	December 31, 2010	December 31, 2009
Executive deferred compensation plan . . . . .	\$1,187	\$ 928
Income taxes . . . . .	824	798
Deferred rent . . . . .	94	163
Deferred revenues . . . . .	6	—
Due to Wider . . . . .	—	189
Due to Ascom . . . . .	<u>—</u>	<u>94</u>
	<u>\$2,111</u>	<u>\$2,172</u>

*Revenue Recognition*

The Company sells antenna products and software defined radio products. The Company recognizes revenue when the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed and determinable, and collectability is reasonably assured.

The Company recognizes revenue for sales of the antenna products and software defined radio products, when title transfers, which is predominantly upon shipment from its factory. For products shipped on consignment, the Company recognizes revenue upon delivery from the consignment location. The Company allows its major antenna product distributors to return product under specified terms and conditions and accrues for product returns.

The Company finalized a licensing agreement with Conexant simultaneously with the sale of its HSP modem product line to Conexant in 2003. Because the HSP modem product line also requires a license to the Company's patent portfolio, the gain on sale of the product line and the licensing stream are not separable for accounting purposes. Ongoing royalties from Conexant are presented in the accompanying consolidated statements of operations as "Royalties". The Conexant royalties ended in 2009.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

***Research and Development Costs***

The Company expenses research and development costs as incurred. To date, the Company has expensed all software development costs because costs incurred subsequent to the products reaching technological feasibility were not significant.

***Advertising Costs***

Advertising costs are expensed in the period in which they are incurred. Advertising expense was \$0.2 million in each of the fiscal years ended December 31, 2010, 2009, and 2008.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are provided against deferred tax assets, which are not likely to be realized. On a regular basis, management evaluates the recoverability of deferred tax assets and the need for a valuation allowance.

Deferred tax assets arise when the Company recognizes charges or expenses in the financial statements that will not be allowed as income tax deductions until future periods. The deferred tax assets also include unused tax net operating losses and tax credits that the Company is allowed to carry forward to future years. Accounting rules permit the Company to carry the deferred tax assets on the balance sheet at full value as long as it is more likely than not the deductions, losses, or credits will be used in the future. A valuation allowance must be recorded against a deferred tax asset if this test cannot be met.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of the accounting for uncertainty in income taxes, the Company recognized the effect of income tax positions only if such positions were probable of being sustained.

***Sales and Value Added Taxes***

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in cost of sales in the accompanying consolidated statements of operations.

***Shipping and handling costs***

Shipping and handling costs are included on a gross basis in cost of sales in the Company's consolidated statements of operations.

***Goodwill***

The Company performs an annual impairment test of goodwill at the end of the first month of the fiscal fourth quarter (October 31st), or at an interim date if an event occurs or if circumstances change that would more likely than not reduce the fair value below the carrying value. The process of evaluating the potential impairment of goodwill is subjective because it requires the use of estimates and assumptions. The Company uses both the Income approach and the Market approach for determining the fair value of the reporting unit. Although the Company bases



**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

the cash flow forecasts on assumptions that are consistent with plans and estimates the Company uses to manage the business, there is considerable judgment in determining the cash flows. Assumptions related to future cash flows and discount rates involve significant management judgment and are subject to significant uncertainty.

While the use of historical results and future projections can result in different valuations for a Company, it is a generally accepted valuation practice to apply more than one valuation technique to establish a range of values for a business. Since each technique relies on different inputs and assumptions, it is unlikely that each technique would yield the same results. However, it is expected that the different techniques would establish a reasonable range. In determining the fair value, the Company weighs the two methods equally in determining the fair value because the Company believes both methods have an equal probability of providing an appropriate fair value.

Since the Company had no goodwill in 2010, a review of goodwill for impairment was not required. The Company performed reviews of goodwill for impairment in 2009 and 2008.

***2009 Goodwill Analysis***

With the acquisition of Wi-Sys in January 2009, the Company recognized \$1.1 million of goodwill. Since the Company's market capitalization plus a control premium during the first quarter 2009 was significantly below the book value of the Company's net assets, including the full amount of the goodwill from the Wi-Sys acquisition, the Company considered this market capitalization deficit to be a triggering event at March 31, 2009 for the evaluation of goodwill for impairment. Because the Company had goodwill for the BTG and Licensing reporting units, the Company performed the goodwill analysis using these two reporting units. Based on the reconciliation between BTG's fair value and the Company's market capitalization, a negative market capitalization variation condition existed at March 31, 2009. The Company concluded that the full amount of the goodwill was impaired at March 31, 2009 and it recorded an impairment charge for \$1.1 million. At March 31, 2009, the undiscounted cash flows of the Licensing unit were lower than the carrying amount of the net book value of the Licensing unit. The Company recorded goodwill impairment for the remaining \$0.4 million of goodwill from the Licensing unit.

***2008 Annual Goodwill Analysis***

In 2008, the Company managed the business as two operating segments, BTG and Licensing. The Company determined these operating segments were the reporting units. The Company tested each reporting unit for possible goodwill impairment by comparing each reporting unit's net book value to fair value. For the cash flow projections of BTG, the Company projected a pro-forma income statement for BTG for the two months ended December 31, 2008 and for the five calendar years ending December 31, 2013. Because the Company's fair value was lower than the carrying value of the assets of BTG at October 31, 2008, the Company concluded that goodwill impairment was likely. Based on the Company's market capitalization as of October 31, 2008 market capitalization, a negative market capitalization variation condition existed in 2008. As a result of the Company's lower market capitalization in 2008, the Company recorded an impairment charge for \$16.7 million. The goodwill impairment of \$16.7 million was 100% of the goodwill associated with BTG.

For Licensing, the Company used an undiscounted cash flow model for determining fair value. The reporting unit had stable predictable cash flow and a finite life, as the last of the modem licensing agreements contractually reach paid up status in June 2009. Given the finite life, the difference between undiscounted and discounted cash flow is immaterial. The annual tests of goodwill in the fourth quarter of 2008 did not indicate impairment was likely.

***Long-lived and Definite-Lived Intangible assets***

The Company reviews definite-lived intangible assets, investments and other long-lived assets for impairment when events or changes in circumstances indicate that their carrying values may not be fully recoverable. This analysis differs from the Company's goodwill analysis in that a definite-lived intangible asset impairment is only deemed to have

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

occurred if the sum of the forecasted undiscounted future cash flows related to the assets being evaluated is less than the carrying value of the assets. The estimate of long-term cash flows includes long-term forecasts of revenue growth, gross margins, and operating expenses. All of these items require significant judgment and assumptions. An impairment loss may exist when the estimated undiscounted cash flows attributable to the assets are less than the carrying amount.

**2010 Analysis**

The Company conducted a long-lived asset impairment analysis at December 31, 2010 because the 2010 revenues resulting from the products related to the Ascom acquisition and the products related to the Wider settlement were significantly lower than our revenue projections used in the original accounting valuations. The Company considered these revenue variances as an indication that the carrying value of the long lived intangible assets subject to amortization may not be fully recoverable and may be less than the fair value at December 31, 2010. The Company performed an evaluation with Level 3 inputs according to the fair value hierarchy described in Note 1. The evaluation was done on the specific assets and related cash flows to which the carrying values relate. The forecasted future undiscounted cash flows were less than the carrying value for the distribution rights and trade names for Wider and for the in-process research and development and the non-compete agreements for Ascom. Based on the results of the company’s analysis, the company recorded a \$1.1 million impairment loss at December 31, 2010. The impairment expense consisted of \$0.9 million for the intangible assets related to Wider and \$0.2 million for the intangible assets related to Ascom. The Company’s assumptions required significant judgment and actual cash flows may differ from those forecasted.

The following table presents the fair value measurements of non-recurring assets for continuing operations at December 31, 2010:

	2010				
	Level 1	Level 2	Level 3	Total	Gain (Loss)
Intangible assets . . . . .	\$—	—	8,865	\$8,865	\$(1,084)
Total . . . . .	<u>\$—</u>	<u>—</u>	<u>\$8,865</u>	<u>\$8,865</u>	<u>\$(1,084)</u>

**2009 Analysis**

Based on the triggering event related to the Company’s market capitalization in the first quarter 2009, the Company reevaluated the carrying value of its intangible assets. The Company concluded that there was no impairment of other intangible assets in relation to the test at March 31, 2009. There was no triggering event in the second, third, or fourth quarters of 2009.

**2008 Analysis**

The Company conducted a long-lived asset impairment analysis in the fourth quarter of 2008 because the Company’s annual impairment test for goodwill in 2008 yielded an impairment of BTG’s goodwill in the amount of the \$16.7 million. While there is no direct market price comparison available for BTG’s intangible assets, the Company believed that the indicated fair value deficit in the calculation beyond the goodwill balance was an indication that there may be a significant market price decline in the intangible assets.

The Company tested the intangible asset balances at October 31, 2008 to determine whether the carrying value of the intangible assets exceeds their “fair value”. “Fair value” means the discounted cash flows expected to result from the use of the asset over its life. The BTG intangible assets with remaining book balances subject to amortization at October 31, 2008 were the trademarks, technology, and customer relationships associated with the acquisitions of the MAXRAD, the product lines from Andrew, and the products from Bluewave. The evaluation was done on the specific assets or asset groups and related cash flows to which the carry values relate. The forecasted future undiscounted cash flows were greater than the carrying value at the asset group level for all three intangible asset groups. The results of the analysis lead the Company to record an impairment loss at December 31, 2008.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

Additionally, there is nothing in the analysis and underlying worksheets that would lead management to conclude that there should be a revision of the original amortization period contemplated for the assets.

**Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASC) No. 2010-06, “Improving Disclosures about Fair Value Measurements,” which amends the Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures.” ASU No. 2010-06 amends the ASC to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and requires more detailed disclosure about the activity within Level 3 fair value measurements. The guidance became effective for the Company with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company with the reporting period beginning July 1, 2011. The guidance requires expanded disclosures only, and will not have any impact on the Company’s consolidated financial statements.

**2. Earnings per Share**

The Company computes earnings per share data under two different disclosures, basic and diluted, for all periods in which statements of operations are presented. Basic earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding, less shares subject to repurchase. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of stock options using the treasury stock method. Common stock options are excluded from the computation of diluted earnings per share if their effect is anti-dilutive.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the years ended December 31, 2010, 2009, and 2008, respectively:

	<b>Years Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Basic Earnings Per Share computation:</b>			
Numerator:			
Net income (loss) . . . . .	\$ (3,456)	\$ (4,483)	\$38,297
Denominator:			
Weighted average common shares outstanding . . . . .	<u>17,408</u>	<u>17,542</u>	<u>19,158</u>
Basic income (loss) per share . . . . .	<u>\$ (0.20)</u>	<u>\$ (0.26)</u>	<u>\$ 2.00</u>
<b>Diluted Earnings Per Share computation:</b>			
Numerator:			
Net income (loss) . . . . .	\$ (3,456)	\$ (4,483)	\$38,297
Denominator:			
Weighted average common shares outstanding . . . . .	17,408	17,542	19,158
Restricted shares subject to vesting . . . . .	*	*	48
Employee common stock option grants . . . . .	*	*	43
Total shares . . . . .	<u>17,408</u>	<u>17,542</u>	<u>19,249</u>
Diluted income (loss) per share . . . . .	<u>\$ (0.20)</u>	<u>\$ (0.26)</u>	<u>\$ 1.99</u>

\* As denoted by “\*” in the table above, weighted average common stock option grants and restricted shares of 546,000 and 321,000 were excluded from the calculations of diluted net loss per share for the years ended December 31, 2010 and 2009, respectively since their effects are anti-dilutive.

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3. Discontinued Operations

*Disposal of Mobility Solutions Group*

On January 4, 2008, the Company completed the sale of MSG to Smith Micro in accordance with an Asset Purchase Agreement entered into between the two companies and publicly announced on December 10, 2007. Under the terms of the Asset Purchase Agreement, Smith Micro purchased substantially all of the assets of MSG for total consideration of \$59.7 million in cash. In the transaction, the Company retained the accounts receivable, non customer-related accrued expenses and accounts payable of the division. Substantially all of the employees of MSG continued as employees of Smith Micro in connection with the completion of the acquisition. The results of operations of MSG have been classified as discontinued operations for the years ended December 31, 2008 and 2007. The Company recognized a gain on sale before tax of \$60.3 million in January 2008. There was no activity for discontinued operations during the years ended December 31, 2010 and 2009.

Summary results of operations for the discontinued operations included in the consolidated statement of operations for the year ended December 31, 2008 are as follows:

	<u>Year Ended December 31, 2008</u>
Revenues . . . . .	\$ 122
Operating costs and expenses . . . . .	(400)
Restructuring expenses . . . . .	(43)
Gain on disposal . . . . .	<u>60,336</u>
Income from discontinued operations, before taxes . . . . .	60,015
Provision for income tax . . . . .	<u>22,877</u>
Income from discontinued operations, net of tax . . . . .	<u>\$37,138</u>
Income from discontinued operations per common share:	
Basic . . . . .	\$ 1.94
Diluted . . . . .	\$ 1.93
Shares used in computing basic earnings per share . . . . .	19,158
Shares used in computing diluted earnings per share . . . . .	19,249

Cash flows from discontinued operations for the year ended December 31, 2008 are as follows:

	<u>Year Ended December 31, 2008</u>
Cash flows from discontinued operations . . . . .	<u>\$38,477</u>

4. Acquisitions

Business combinations are accounted for using the acquisition method of accounting. In general the acquisition method requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree. The measurement requirements result in the recognition of the full amount of acquisition-date goodwill, which includes amounts attributable to non-controlling interests. Neither the direct costs incurred to effect a business combination nor the costs the acquirer expects to incur under a plan to restructure an acquired business may be included as part of the business combination accounting. As a result, those costs are charged to expense when incurred, except for debt or equity issuance costs, which are accounted for in

**PCTEL, INC.**

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accordance with other generally accepted accounting principles. The Company used the new guidance for business combinations to account for its acquisitions after January 1, 2009.

The new measurement requirements also change the accounting for contingent consideration, in process research and development, and restructuring costs. In addition changes in uncertain tax positions or valuation allowances for deferred tax assets acquired in a business combination are recognized as adjustments to income tax expense or contributed capital, as appropriate, even if the deferred tax asset or tax position was initially acquired.

***Acquisition of Sparco Technologies, Inc.***

On January 12, 2010, the Company acquired all of the outstanding share capital of Sparco pursuant to a Share Purchase Agreement among PCTEL, Sparco, and David R. Dulling, Valerie Dulling, Chris Cooke, and Glenn Buckner, the holders of the outstanding share capital of Sparco. Sparco is a San Antonio, Texas based Company that specializes in selling value-added wireless local area network (“WLAN”) products and services to the enterprise, education, hospitality, and healthcare markets. Sparco’s product line includes antennas for WLAN, national electrical manufacturer’s association (“NEMA”) enclosures and mounting accessories, site survey tools, and amplifiers. With this acquisition, the Company extended its product offering, channel penetration and technology base in wireless enterprise products. Sparco revenues were approximately \$2.8 million for the year ended December 31, 2009. The revenues and expenses of Sparco from the date of acquisition are included in the Company’s financial results for the year ended December 31, 2010. The pro-forma affect on the financial results of the Company as if the acquisition had taken place on January 1, 2008 is not significant.

The Company assumed a lease for a 6,300 square foot facility used for operations and sales activities in San Antonio, Texas that expired in January 2011. The Company integrated Sparco’s manufacturing and distribution operations in its Bloomingdale, Illinois facility in the third quarter 2010 and moved the sales offices to a new location in San Antonio, Texas in January 2011.

The consideration for Sparco was \$2.5 million, consisting of \$2.4 million in cash consideration and \$0.1 million related to the Company’s outstanding receivable balance from Sparco at the date of acquisition. Of the \$2.4 million cash consideration, \$2.1 million was payable to the Sparco shareholders and \$0.3 million was used to discharge outstanding debt liabilities. At December 31, 2010, approximately \$0.2 million was due to the former Sparco shareholders, consisting of the final payment due related to the purchase price and an amount owed related to the opening cash balance. The \$0.2 million due to the former Sparco shareholders is included in accrued liabilities. The cash consideration paid in connection with the acquisition was provided from the Company’s existing cash. The acquisition related costs for the Sparco purchase were not significant to the Company’s consolidated financial statements.

The consideration was allocated based on fair value: \$1.1 million to net tangible liabilities, \$3.3 million to customer relationships, \$0.3 million to trade names and other intangible assets. The fair value of the net assets acquired exceeded the total investment by \$54. This \$54 gain on the bargain purchase of Sparco was recorded in other income, net in the condensed consolidated statements of operations. There was no goodwill recorded with this transaction. The consideration was determined based on the fair value of the intangible assets modeled at the time of the negotiation, which were updated at the time of closing. An immaterial bargain purchase amount resulted from the process of validating the Company’s initial fair value model assumptions with actual performance information from the first quarter of operations. The intangible assets are being amortized for book purposes, but are not deductible for tax purposes. The weighted average amortization period of the intangible assets acquired is 6.0 years. The Company estimated the fair value (and remaining useful lives) of the assets and liabilities.

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The following is the allocation of the purchase price for Sparco at the date of the acquisition:

<b>Current assets:</b>	
Cash . . . . .	\$ 91
Accounts receivable . . . . .	269
Prepays and other assets . . . . .	5
Inventories . . . . .	205
Fixed assets . . . . .	10
Deferred tax assets . . . . .	<u>53</u>
<b>Total current assets . . . . .</b>	<b><u>633</u></b>
<b>Intangible assets:</b>	
Customer relationships . . . . .	3,350
Trade names . . . . .	268
Backlog . . . . .	12
Non-compete . . . . .	<u>11</u>
<b>Total intangible assets . . . . .</b>	<b><u>3,641</u></b>
<b>Total assets . . . . .</b>	<b><u>4,274</u></b>
<b>Current liabilities:</b>	
Accounts payable . . . . .	326
Accrued liabilities . . . . .	<u>46</u>
<b>Total current liabilities . . . . .</b>	<b><u>372</u></b>
<b>Long term liabilities:</b>	
Deferred tax liabilities . . . . .	<u>1,347</u>
<b>Total long term liabilities . . . . .</b>	<b><u>1,347</u></b>
<b>Total liabilities . . . . .</b>	<b><u>1,719</u></b>
<b>Net assets acquired . . . . .</b>	<b><u><u>\$2,555</u></u></b>

***Purchase of assets from Ascom Network Testing, Inc.***

On December 30, 2009, the Company entered into and closed an Asset Purchase Agreement (the “Ascom APA”) with Ascom. Under the terms of the Ascom APA, the Company acquired all of the assets related to Ascom’s scanning receiver business (“WTS scanning receivers”). The WTS scanners receivers business was a small part of Comarco’s WTS segment, a business that Ascom acquired in 2009. The WTS scanning receivers augment the Company’s scanning receiver product line.

WTS scanning receiver revenues for the year ended December 31, 2009 were approximately \$1.4 million. There was no activity related to Ascom in the Company’s consolidated financial results for the year ended December 31, 2009. The pro-forma affect on the financial results of the Company as if the acquisition has taken place on January 1, 2008 is not significant. The acquisition-related costs for the Ascom purchase were not significant to the Company’s consolidated financial statements.

The WTS scanning receiver business has been integrated with the Company’s scanning receiver operations in Germantown, Maryland. As part of the Ascom APA, the parties concurrently entered into a Transition Services

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Agreement (“TSA”). Under the TSA, Ascom manufactured and assembled the scanner products until the operations were integrated with the Company’s own operations in its Germantown, Maryland facility. The TSA was complete as of June 30, 2010. Per the Ascom APA, the Company also funded the development of compatibility between its scanning receivers and Ascom’s benchmarking solution.

Separately, the companies renewed their existing supply agreement, which remained non-exclusive. Under the supply agreement, the Company continues to supply both the PCTEL scanning receivers and the WTS scanning receivers to the newly formed Ascom Network Testing Division that consolidated the testing businesses for mobile telecom carriers of Ascom.

The purchase price of \$4.5 million for the scanning receiver assets of Ascom was allocated based on fair value: \$0.3 million to net tangible assets, \$3.8 million to customer relationships, \$0.3 million to core technology and trade names, and \$0.1 million to other intangible assets. The technology includes \$0.2 million of in-process R&D related to LTE scanner development. The projects related to the in-process research and development were completed in the third quarter of 2010. The tangible assets include inventory and warranty obligations. There was no goodwill recorded from this acquisition. The intangible assets are being amortized for book purposes and are tax deductible. At the date of the acquisition, the weighted average book amortization period of the intangible assets was 5.2 years. The Company estimated the fair value (and remaining useful lives) of the assets and liabilities.

The following is the allocation of the purchase price for Ascom at the date of the acquisition:

<b>Current assets:</b>	
Inventory . . . . .	\$ 248
<b>Intangible assets:</b>	
Core technology . . . . .	254
Customer relationships . . . . .	3,833
Trade names . . . . .	52
Other, net . . . . .	<u>130</u>
<b>Total intangible assets . . . . .</b>	<b><u>4,269</u></b>
<b>Total assets . . . . .</b>	<b><u>4,517</u></b>
<b>Current liabilities:</b>	
Warranty accrual . . . . .	<u>26</u>
<b>Total current liabilities . . . . .</b>	<b><u>26</u></b>
<b>Net assets acquired . . . . .</b>	<b><u><u>\$4,491</u></u></b>

The purchase price was based on \$4.3 million paid at the close of the transaction and \$0.2 million of contingent consideration due in two equal installments in December 2010 and 2011, respectively. The cash consideration paid in connection with the acquisition was provided from the Company’s existing cash. The \$0.2 million of contingent consideration was based upon achievement of certain revenue objectives and at December 31, 2009, the Company included the future payments due in the purchase price because it believed that the achievement of these objectives was more likely than not. The revenue target for 2010 was not met, and as of December 31, 2010, the Company determined that the revenue target for 2011 would more than likely not be met. At December 31, 2010, the Company recorded a write off of the \$0.2 million contingent consideration as miscellaneous income, which is included in other income, net in the consolidated statements of operations. Due to the revised revenue projections for the WTS scanning receivers, the Company also recorded impairment expense of \$0.2 million. See the long-lived asset section in Note 1 for further discussion of the intangible asset impairment for Ascom.

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***Acquisition of Wi-Sys Communications, Inc.***

On January 5, 2009, the Company acquired all of the outstanding share capital of Wi-Sys pursuant to a Share Purchase Agreement dated January 5, 2009 among PCTEL, Gyles Panther and Linda Panther, the holders of the outstanding share capital of Wi-Sys. The total consideration for Wi-Sys was \$2.1 million paid at the close of the transaction and \$0.2 million additional due to the shareholders based on the final balance sheet at December 31, 2008. The \$0.2 million additional consideration was paid in cash in July 2009. The cash consideration paid in connection with the acquisition was provided from the Company's existing cash. The Company incurred acquisition costs of approximately \$0.1 million related to Wi-Sys. The pro-forma affect on the financial results of the Company as if the acquisition had taken place on January 1, 2008 is not significant.

Wi-Sys manufactured products for GPS, terrestrial and satellite communication systems, including program-mable GPS receivers and high performance antennas in Ottawa, Canada. The Wi-Sys® antenna product line augments the Company's GPS antenna product line. Wi-Sys revenues for the year ended December 31, 2008 were approximately \$2.2 million. The revenues and expenses for Wi-Sys are included in the Company's financial results for the year ended December 31, 2009.

The purchase price of \$2.3 million for the assets of Wi-Sys was allocated based on fair value: \$0.8 million to tangible assets and \$0.4 million to liabilities assumed, \$0.7 million to customer relationships, and \$0.1 million to core technology and trade names. The \$1.1 million excess of the purchase price over the fair value of the net tangible and intangible assets was allocated to goodwill. The goodwill was impaired for book purposes in the first quarter 2009. The goodwill is deductible for tax purposes. The intangible assets are being amortized for book purposes and are tax deductible. At the date of the acquisition, the weighted average book amortization period of the intangible assets is 4.6 years. The Company estimated the fair value (and remaining useful lives) of the assets and liabilities.

The following is the allocation of the purchase price for Wi-Sys at the date of the acquisition:

<b>Current assets:</b>	
Cash . . . . .	\$ 59
Accounts receivable . . . . .	319
Inventory . . . . .	294
Prepaid expenses and other assets . . . . .	90
<b>Total current assets.</b> . . . . .	<u>762</u>
<b>Fixed assets, net</b> . . . . .	<u>69</u>
<b>Intangible assets:</b>	
Core technology . . . . .	37
Customer relationships . . . . .	730
Trade names . . . . .	18
Goodwill . . . . .	<u>1,101</u>
<b>Total intangible assets.</b> . . . . .	<u>1,886</u>
<b>Total assets</b> . . . . .	<u>2,717</u>
<b>Current liabilities:</b>	
Accounts payable . . . . .	139
Accrued liabilities . . . . .	36
<b>Total current liabilities</b> . . . . .	<u>175</u>
Deferred tax liabilities . . . . .	<u>223</u>
<b>Total liabilities</b> . . . . .	<u>398</u>
<b>Net assets acquired</b> . . . . .	<u><u>\$2,319</u></u>



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In March 2009, the Company recorded goodwill impairment of \$1.5 million. The impairment charge included the \$1.1 million recorded for the Wi-Sys acquisition. See the goodwill section in Note 1 for further discussion of the goodwill impairment.

In the second quarter 2009, the Company closed the Ottawa, Canada location and integrated the operations in the Company's Bloomingdale, Illinois location. None of the Wi-Sys employees were retained by the Company. The Company incurred expenses related to employee severance, lease termination, and other shut down costs associated with the Wi-Sys restructuring. See Note 9 for more information on the Wi-Sys restructuring.

***Purchase of assets from Bluewave Antenna Systems, Ltd***

On March 14, 2008 the Company entered into and closed an Asset Purchase Agreement (the "Bluewave APA") with Bluewave, a privately owned Canadian company. Under terms of the Bluewave APA, the Company purchased all of the intellectual property, selected manufacturing fixed assets, and all customer relationships related to the Bluewave™ antenna product lines. The total consideration was \$3.9 million in cash. The only liability the Company assumed was for product warranty, which has been historically immaterial. The Bluewave™ antenna product line augments the Company's LMR antenna product line. The acquisition related costs for the Bluewave purchase were not significant to the Company's consolidated financial statements.

The parties concurrently entered into a Transition Services Agreement ("TSA"). The TSA provided for Bluewave to supply antenna inventory while the Company ramped up its own contract manufacturing and final assembly capacity in its Bloomingdale, Illinois factory. The TSA was completed in June 2008. The revenues and expenses for Bluewave are included in the Company's financial results for the year ended December 31, 2008 from the acquisition date forward. The pro-forma affect on the financial results of the Company as if the acquisition had taken place on January 1, 2008 is not significant.

The purchase price of \$3.9 million for the assets of Bluewave was allocated \$3.3 million to intangible assets and \$0.1 million to fixed assets. The \$0.5 million excess of the purchase price over the fair value of the net tangible and intangible assets was allocated to goodwill. The goodwill was impaired for book purposes in the fourth quarter 2008. The goodwill is deductible for tax purposes. The intangible assets are being amortized for book purposes and are tax deductible. At the date of acquisition, the weighted average book amortization period of the intangible assets was 6.0 years. The Company estimated the fair value (and remaining useful lives) of the assets acquired.

The following is the allocation of the purchase price for the assets of Bluewave at the date of the acquisition:

<b>Fixed assets:</b>	
Computer software . . . . .	\$ 46
Tooling . . . . .	<u>60</u>
<b>Total fixed assets . . . . .</b>	<b><u>\$ 106</u></b>
<b>Intangible assets:</b>	
Core technology . . . . .	\$ 290
Customer relationships . . . . .	2,850
Trade name . . . . .	160
Backlog . . . . .	8
Goodwill . . . . .	<u>486</u>
<b>Total intangibles assets . . . . .</b>	<b><u>\$3,794</u></b>
<b>Total assets acquired . . . . .</b>	<b><u><u>\$3,900</u></u></b>

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5. Settlement with Wider Networks LLC

On December 9, 2009, the Company settled its intellectual property dispute with Wider. The settlement agreement provided for a purchase of assets in the form of patented technology, trade names and trademarks, and exclusive distribution rights. The settlement gives the Company another interference management product, suitable for certain markets, to distribute along side CLARIFY®. The \$1.2 million settlement amount consisted of cash consideration of \$0.8 million paid at the close of the transaction plus additional installments of \$0.2 million in December 2010 and December 2011.

The fair value of the elements in the settlement agreement was approximately \$1.2 million. The \$1.2 million fair value of the assets purchased from Wider was allocated: \$1.0 million to distribution rights and \$0.2 million to core technology and trade names.

The following was recorded as the fair value of the asset acquired from Wider at the date of the settlement:

**Intangible assets:**

Distribution rights, net . . . . .	\$1,013
Core technology . . . . .	127
Trade name . . . . .	<u>31</u>
<b>Total intangible assets . . . . .</b>	<b><u><u>\$1,171</u></u></b>

The Company estimated the fair value (and remaining useful lives) of the assets. At the date the settlement was recorded, the weighted average book amortization period of the intangible assets was 5.7 years. The 2010 revenues resulting from the products related to the Wider trade name and the Wider distribution rights were significantly lower than our revenue projections used in the original accounting valuations. We considered these revenue variances as an indication that the carrying value of the long lived intangible assets subject to amortization may not be fully recoverable and may be less than the fair value at December 31, 2010. At December 31, 2010, the Company recorded impairment expense of \$0.9 million related to the remaining balance of the distribution rights and trade names. The intangible assets were amortized for book purposes in 2010. The core technology will be amortized for book purposes for the remainder of its useful life. The intangible assets are tax deductible. See the long-lived asset section in Note 1 for further discussion of the intangible asset impairment for Wider.

The company paid the first installment of \$0.2 million in December 2010. The fair value of the payment due in December 2011 is included in accrued liabilities at December 31, 2010.

See also Note 11 for information on legal proceedings with Wider.

6. Disposition

**Sale of product lines to Sigma Wireless Technologies, Ltd.**

On August 14, 2008, the Company entered into an asset purchase agreement for the sale of certain antenna products and related assets to Sigma Wireless Technology Ltd, a Scotland-based company (“SWTS”). Sigma and SWTS are unrelated companies.

SWTS purchased the intellectual property, dedicated inventory, and certain fixed assets related to four of the Company’s antenna product families for \$0.7 million, payable in installments at close and over a period of 18 months. The four product families represent the last remaining products acquired by the Company through its acquisition of Sigma in July 2005. SWTS and Sigma are unrelated. On August 14, 2008, SWTS was also appointed the Company’s manufacturer’s representative (“rep”) in the European Union for the Company’s remaining antenna products. The sale transaction closed on October 9, 2008.

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SWTS was formed at the effective date of this sale to specifically house the operations of the four antenna lines and the sales activities related to the representation of the Company's remaining antenna products in Europe. SWTS was capitalized with equity of \$0.1 million and the Company's promissory note of \$0.6 million. The Company concluded that SWTS was a VIE because of the Company's promissory note and because total equity investment of SWTS at risk is insufficient to finance the activities of SWTS without additional subordinated financial support. The Company's analysis indicated that it is not the primary beneficiary of SWTS because it does not have the obligations to absorb the majority of SWTS's expected losses. The shareholders of SWTS maintained all voting rights and decision making authority over SWTS activities. The Company's analysis included significant judgment related to projections of revenues, income, and cash flows of SWTS. Because the Company is not the primary beneficiary of SWTS, the Company does not consolidate the results of SWTS in its financial statements.

For the year ended December 31, 2008, the Company recorded a \$0.9 million loss on sale of product lines, separately within operating expenses in the financial statements. The net loss included impairment charges and incentive payments due the new employees of SWTS, net of the proceeds due to the Company. The Company sold inventory with a net book value of \$0.8 million and wrote off intangible assets including goodwill of \$0.5 million. The intangible asset write-off was the net book value, and the goodwill write-off was a pro-rata portion of goodwill. The Company paid incentive payments of \$0.1 million and calculated \$0.5 million in proceeds based on the principal value of the installment payments excluding imputed interest.

In 2009, the Company reserved for the \$0.4 million outstanding receivable balance from SWTS due to uncertainty of collection. The reserve was recorded as a loss on sale of product line and related note receivable in the consolidated statements of operations. The related note was formally written-off and cancelled on March 4, 2010. As of December 31, 2010, there is no involvement with SWTS and there is no exposure to loss from SWTS.

**7. Goodwill and Other Intangible Assets**

**Goodwill**

In January 2009, the Company recorded goodwill of \$1.1 million related to the acquisition of Wi-Sys. In March 2009, the Company recorded goodwill impairment of \$1.5 million because of the Company's low market capitalization. The impairment represented the full amount of the goodwill from the Wi-Sys acquisition and \$0.4 million remaining from the Company's licensing unit.

In the fourth quarter 2008, the Company recorded a goodwill impairment of \$16.7 million based on the results from its annual test of goodwill impairment.

**Intangible Assets**

The Company amortizes intangible assets with finite lives on a straight-line basis over the estimated useful lives, which range from one to eight years. Amortization expense was approximately \$2.9 million, \$2.2 million, and \$2.1 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The Company had intangible assets of \$27.4 million with accumulated amortization of \$18.5 million at December 31, 2010 and intangible assets of \$24.8 million with accumulated amortization of \$15.6 million at December 31, 2009. Intangible assets consist principally of customer relationships, technology, trademarks and trade names.

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The summary of other intangible assets, net as of December 31 for the years ended 2010 and 2009 is as follows:

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships . . . .	\$16,763	\$ 8,743	\$8,020	\$13,413	\$ 6,612	\$6,801
Patents and technology . . . . .	6,312	6,007	305	6,409	5,718	691
Trademarks and trade names . . . . .	2,603	2,074	529	2,361	1,746	615
Other . . . . .	1,714	1,703	11	2,651	1,517	1,134
	<u>\$27,392</u>	<u>\$18,527</u>	<u>\$8,865</u>	<u>\$24,834</u>	<u>\$15,593</u>	<u>\$9,241</u>

The increase in cost of approximately \$2.6 million for intangible assets consists of \$3.6 million of assets acquired with the Sparco acquisition and \$1.1 million of impairment expense to reduce intangible assets to fair value. See Note 4 for information related to intangible assets for the Sparco acquisition and see the long-lived asset section of Note 1 for more information on the impairment expense. Accumulated amortization increased \$2.9 million due to amortization expense.

The assigned lives and weighted average amortization periods by intangible asset category is summarized below:

<u>Intangible Assets</u>	<u>Assigned Life</u>	<u>Weighted Average Amortization Period</u>
Customer contracts and relationships . . . . .	4 to 6 years	5.0
Patents and technology . . . . .	1 to 6 years	4.1
Trademarks and trade names . . . . .	3 to 8 years	4.3
Other . . . . .	1 to 6 years	3.7

The Company's scheduled amortization expense over the next five years is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011 . . . . .	\$2,210
2012 . . . . .	\$1,991
2013 . . . . .	\$1,907
2014 . . . . .	\$1,481
2015 . . . . .	\$1,251

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**8. Comprehensive Income (loss)**

The following table provides the calculation of other comprehensive income (loss) for the years ended December 31, 2010, 2009, and 2008:

	Years Ended December 31,		
	2010	2009	2008
Net income (loss) from continuing operations . . . . .	\$(3,456)	\$(4,483)	\$ 1,159
Foreign currency translation adjustments . . . . .	30	22	(68)
Comprehensive income (loss) from continuing operations . . . . .	(3,426)	(4,461)	1,091
Income from discontinued operations, net of tax . . . . .	—	—	37,138
Total comprehensive income (loss) . . . . .	\$(3,426)	\$(4,461)	\$38,229

**9. Restructuring**

The Company incurred restructuring expenses of \$0.9 million, \$0.5 million, and \$0.4 million for the years ended December 31, 2010, 2009, and 2008, respectively. The restructuring liability was \$0.3 million and \$0 at December 31, 2010 and 2009, respectively. The restructuring liability is included in accrued liabilities in the consolidated balance sheets.

**2010 Restructuring Plans**

During 2010, the Company incurred restructuring expense of \$0.8 million for its functional organization restructuring plan that was announced in the second quarter 2010 and \$0.1 million for the shutdown of Sparco operations that was completed in the third quarter 2010.

During the second quarter 2010, the Company reorganized from a business unit structure to a more streamlined functional organizational structure to implement the Company’s mission. Jeff Miller, who previously led the Company’s Antenna Products Group, was assigned to the position of Senior Vice President, Sales and Marketing. Tony Kobrinetz joined the Company in April 2010 as Vice President, Technology and Operations. A restructuring plan was established to reduce the overhead and operating costs associated with operating distinct groups. The restructuring plan consisted of the elimination of twelve positions. The Company incurred restructuring expense of \$0.8 million in the year ended December 31, 2010, which consisted of severance, payroll related benefits and placement services.

During the third quarter 2010, the Company shutdown its Sparco manufacturing and distribution operations in San Antonio, Texas and integrated these activities in its facility in Bloomingdale, Illinois. The restructuring plan consisted of the elimination of five positions. The Company incurred restructuring expense of \$0.1 million in the year ended December 31, 2010 for severance, payroll benefits, and relocation costs. The Company moved the Sparco sales employees to a new leased facility in January 2011.

**2009 Restructuring Plans**

The 2009 restructuring expense consisted of \$0.3 million for Bloomingdale antenna restructuring and \$0.2 million for Wi-Sys restructuring. In order to reduce costs with the antenna operations in the Bloomingdale, Illinois location, the Company terminated thirteen employees during the three months ended March 31, 2009 and terminated five additional employees during three months ended June 30, 2009. The Company recorded \$0.3 million in restructuring expense for severance payments for these eighteen employees. During the second quarter 2009, the Company exited its Ottawa, Canada location related to the Wi-Sys acquisition and integrated their operations in its

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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Bloomington, Illinois location. The Company recorded \$0.2 million in restructuring expense for employee severance, lease termination, and other shut down costs.

**2008 Restructuring Plans**

The 2008 restructuring expense consisted of \$0.3 million for corporate overhead restructuring and \$0.1 million for international sales office restructuring. In the first quarter of 2008, the Company incurred restructuring expense of \$0.3 million for employee severance costs related to reductions in corporate overhead. In November 2008, the Company announced the closure of its sales office in New Delhi, India, effective December 2008. The Company incurred restructuring charges of \$0.1 million for severance payouts and lease obligations.

The following table summarizes the restructuring charges recorded for the plans mentioned above:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Severance and employment related costs . . . . .	\$874	\$413	\$382
Manufacturing obligations . . . . .	—	—	(58)
Fixed asset dispositions . . . . .	—	65	—
Relocation costs . . . . .	57	—	—
Lease termination and office costs . . . . .	—	15	29
	<u>\$931</u>	<u>\$493</u>	<u>\$353</u>

The following table summarizes the Company's restructuring activity during 2010 and the status of the reserves at year end:

	<u>Accrual Balance at December 31, 2009</u>	<u>Restructuring Expense</u>	<u>Cash Payments</u>	<u>Accrual Balance at December 31, 2010</u>
<b>2010 Restructuring Plans</b>				
Sparco . . . . .	\$ 0	\$ 93	\$ (93)	\$ 0
Functional Reorganization . . . . .	—	838	\$(514)	324
	<u>\$ 0</u>	<u>\$931</u>	<u>\$(607)</u>	<u>\$324</u>

**10. Income Taxes**

The Company recorded tax benefits of \$1.9 million, \$0.8 million, and \$15.0 million in the years ended December 31, 2010, 2009, and 2008, respectively. The effective tax rate was approximately equal to the statutory federal rate of 35% during 2010. The effective tax rate differed from the statutory federal rate of 35% during 2009 because of foreign taxes, a rate change related to deferred taxes, and the non-tax deductibility for the Wi-Sys goodwill impairment. The effective tax rate differed from the statutory federal rate of 35% during 2008 principally due to a \$9.8 million decrease in the valuation allowance for deferred tax assets. The Company reversed the valuation allowance because its projected income was more than adequate to offset the deferred tax assets remaining after the disposition of the Sigma assets in the third quarter 2008.

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A reconciliation of the benefit for income taxes at the federal statutory rate compared to the benefit at the effective tax rate is as follows:

	Years Ended December 31		
	2010	2009	2008
Benefit at federal statutory rate (35%) . . . . .	35%	35%	35%
State income tax, net of federal benefit. . . . .	2%	2%	3%
Release of valuation allowance. . . . .	—	—	71%
Foreign income taxed at different rates . . . . .	(2)%	(8)%	—
Research and development credits . . . . .	2%	(6)%	2%
Return to provision adjustments . . . . .	(1)%	2%	(1)%
Effective rate change to deferred tax assets. . . . .	(1)%	(4)%	(1)%
Tax effect of permanent differences . . . . .	—	(6)%	(1)%
	<u>35%</u>	<u>15%</u>	<u>108%</u>

The domestic and foreign components of the loss before provision (benefit) for income taxes were as follows:

	Years Ended December 31,		
	2010	2009	2008
Domestic . . . . .	\$(5,109)	\$(3,812)	\$(13,844)
Foreign . . . . .	(222)	(1,454)	7
	<u>\$(5,331)</u>	<u>\$(5,266)</u>	<u>\$(13,837)</u>

The benefit for income taxes consisted of the following:

	Years Ended December 31,		
	2010	2009	2008
Current:			
Federal . . . . .	\$(1,382)	\$(1,187)	\$(7,763)
State . . . . .	13	131	7
Foreign . . . . .	27	132	38
	(1,342)	(924)	(7,718)
Deferred:			
Federal . . . . .	(540)	124	(5,390)
State . . . . .	7	17	(1,888)
	(533)	141	(7,278)
Total . . . . .	<u>\$(1,875)</u>	<u>\$(783)</u>	<u>\$(14,996)</u>

PCTEL, INC.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The net deferred tax accounts consist of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Deferred Tax Assets:</b>		
Amortization . . . . .	\$ 6,849	\$ 8,250
Stock compensation . . . . .	1,835	1,686
Federal, foreign, and state credits . . . . .	678	558
Inventory reserves . . . . .	367	538
Deferred compensation . . . . .	436	343
Accrued vacation . . . . .	299	273
Net operating loss carryforwards . . . . .	241	137
Other . . . . .	<u>514</u>	<u>300</u>
Gross deferred tax assets . . . . .	11,219	12,085
Valuation allowance . . . . .	<u>(702)</u>	<u>(648)</u>
Net deferred tax asset . . . . .	10,517	11,437
<b>Deferred Tax liabilities:</b>		
Depreciation . . . . .	<u>(500)</u>	<u>(466)</u>
<b>Net Deferred Tax Assets</b> . . . . .	<u><u>\$10,017</u></u>	<u><u>\$10,971</u></u>

The classification of deferred tax amounts on the balance sheet is as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Current:</b>		
Deferred tax assets . . . . .	\$ 1,013	\$ 1,024
Deferred tax liabilities . . . . .	<u>—</u>	<u>—</u>
Current deferred tax assets . . . . .	1,013	1,024
<b>Non-current:</b>		
Deferred tax assets . . . . .	10,623	10,413
Deferred tax liabilities . . . . .	<u>(1,619)</u>	<u>(466)</u>
Non-current deferred tax assets, net . . . . .	<u>9,004</u>	<u>9,947</u>
<b>Net Deferred Tax Assets</b> . . . . .	<u><u>\$10,017</u></u>	<u><u>\$10,971</u></u>

**Deferred Tax Valuation Allowance**

At December 31, 2010, the Company has a valuation allowance of \$0.7 million against \$10.7 million of net deferred tax assets. At December 31, 2009, the Company had a valuation allowance of \$0.6 million against \$11.6 million of net deferred tax assets. The valuation allowance at December 31, 2010, and 2009, respectively, relates to credits and state operating losses that the Company does not expect to realize because they correspond to tax jurisdictions where the Company no longer has significant operations.

On a regular basis, management evaluates the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. Management considers multiple factors in its evaluation of the need for a valuation allowance. The Company has incurred a cumulative taxable loss



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
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from continuing operations exclusive of reversing temporary differences over the three years ended December 31, 2010. However, this period includes the affect of a world wide economic recession, which in the Company's judgment is an unusual event. The Company's deferred tax assets have a ratable reversal pattern over 15 years. The carry forward rules allow for up to a 20 year carry forward of net operating losses ("NOL") to future income that is available to realize the deferred tax assets. And, the Company's estimate of future income over the reversal period and subsequent carry forward period is sufficient to realize the deferred tax assets. Based on the evaluation of these factors taken as a whole, the Company believes that the positive evidence in the form of the ratable 15 year reversal pattern, 20 year NOL carry forward period, and its estimate of future income, outweigh the negative evidence of a cumulative taxable loss from continuing operations exclusive of reversing temporary differences over the last three years, which include a worldwide recession. Therefore, the Company believes that the net deferred tax asset exclusive of the credits and state net operating losses is more likely than not to be realized.

**Accounting for Uncertainty for Income Taxes**

A reconciliation of the beginning and ending amount of unrecognized tax benefits at December 31, 2010 and 2009, respectively is as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Beginning of period . . . . .	\$1,133	\$ 935
Addition related to tax positions in current years . . . . .	<u>40</u>	<u>198</u>
End of period . . . . .	<u>\$1,173</u>	<u>\$1,133</u>

Included in the balance of total unrecognized tax benefits at December 31, 2010, are potential benefits of \$1.2 million that if recognized, would affect the effective rate on income before taxes. We do not expect any of the potential benefits will be settled within the next twelve months. The Company is unaware of any positions for which it is reasonably possible that the unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes all interest and penalties, including those relating to unrecognized tax benefits as income tax expense. The Company's income tax expense related to interest includes \$25, \$20, and \$0 for the years ended December 31, 2010, 2009 and 2008, respectively for unrecognized tax benefits. At December 31, 2010 and 2009, respectively, the Company had interest payable of \$45 and \$20 related to unrecognized tax benefits.

**Audits**

The Company and its subsidiaries file income tax returns in the U.S. and various foreign jurisdictions. The Company's U.S. federal tax returns remain subject to examination for 2008 and subsequent periods. The Company's state tax returns remain subject to examination for 2008 and subsequent periods.

**Summary of Carryforwards**

At December 31, 2010, the Company has state net operating loss carry forwards of \$4.2 million that expire between 2016 and 2030 and \$1.3 million of state research credits with no expiration.

**Investment in Foreign Operations**

The Company has not provided deferred U.S. income taxes and foreign withholding taxes on approximately \$0.3 million of undistributed cumulative earnings of foreign subsidiaries because the Company considers such earnings to be permanently reinvested in those operations. Upon repatriation of these earnings, we would be subject

**PCTEL, INC.**

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**For the Year Ended: December 31, 2010**

to U.S. income tax, net of available foreign tax credits. Determination of the deferred tax liability related to the repatriation of these earnings is not practical.

The Company's subsidiary in Tianjin, China had a full tax holiday through 2008, and a partial tax holiday in 2009. For 2009, this subsidiary was subject to half the statutory rate. The impact of the tax holiday was not material to the income tax benefit for the years ended December 31, 2009, and 2008, respectively.

**11. Commitments and Contingencies**

*Leases*

The Company has operating leases for facilities through 2016 and office equipment through 2014. The future minimum rental payments under these leases at December 31, 2010, are as follows:

<u>Year</u>	<u>Amount</u>
2011 .....	\$ 688
2012 .....	723
2013 .....	222
2014 .....	97
2015 .....	88
2016 .....	<u>45</u>
Future minimum lease payments .....	<u>\$1,863</u>

The rent expense under leases was approximately \$0.6 million, \$0.5 million, and \$0.6 million for the years ended December 31, 2010, 2009, and 2008, respectively.

The Company does not have any capital leases.

*Warranty Reserve and Sales Returns*

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company accrues for product returns based on historical sales and return trends. The Company's allowance for sales returns was \$0.2 million at December 31, 2010 and December 31, 2009, respectively, and is included within accounts receivable on the consolidated balance sheet.

The Company offers repair and replacement warranties of primarily two years for antenna products and one year for scanners and receivers. The Company's warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was \$0.3 million and \$0.2 million at December 31, 2010 and 2009, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets.

	<u>Year Ended</u> <u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Beginning balance .....	\$228	\$193
Provisions for warranty .....	120	94
Consumption of reserves .....	<u>(91)</u>	<u>(59)</u>
Ending balance .....	<u>\$257</u>	<u>\$228</u>

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

*Legal Proceedings*

*Litigation with Wider Networks LLC*

In March 2009, the Company filed in the United States District Court for the District of Maryland, Greenbelt Division, a lawsuit against Wider Networks, LLC claiming patent infringement, unfair competition and false advertising, seeking damages as allowed pursuant to federal and Maryland law. In June 2009, Telecom Network Optimization, LLC d/b/a Wider Networks, filed a lawsuit against the Company for patent infringement. These cases were consolidated by the court. On November 5, 2009, the parties participated in a mandatory settlement conference and signed a binding memorandum of understanding resolving all disputes. The consolidated cases were dismissed without prejudice on November 6, 2009 and the Company reached a settlement agreement with Wider on December 9, 2009. Under the terms of the settlement, the Company became the exclusive distributor of Wider's WIND 3G™ interference management system and the scanning receivers underlying those systems. The Company acquired all of the patents relating to Wider's products for \$1.2 million, of which \$0.8 million was paid following execution of the settlement agreement and related documents and \$0.2 million was due on the first and second anniversary dates of the settlement agreement. The Company paid the first \$0.2 million installment in December 2010. The settlement left Wider Networks in business to continue developing and manufacturing its WIND 3G™ product and to retain ownership of all of its hardware design know-how and copyrighted software code related intellectual property. The settlement gives the Company another interference management product, suitable for certain markets, to distribute alongside CLARIFY®. See Note 5 for the accounting treatment of the Wider transaction.

*ITAR Disclosure*

During the quarter ended September 30, 2009, the Company became aware that certain of its antenna products are subject to the jurisdiction of the U.S. Department of State in accordance with the International Traffic in Arms Regulations ("ITAR"). The Company determined that its processes surrounding the design and manufacture of these antennas were not adequate to assure compliance with ITAR, and that the Company may have inadvertently violated restrictions on technology transfer in the ITAR.

Accordingly, on October 1, 2009 the Company filed a Voluntary Disclosure with the Directorate of Defense Trade Controls ("DTCC"), Department of State, describing the details of the non-compliance. On October 15, 2009, the Company received a letter from the DTCC requesting that the Company provide a full disclosure within 60 days of the date of their letter. The Company provided a full disclosure on December 14, 2009, which included its remediation plan which was implemented during the fourth quarter 2009. On March 2, 2010 the Company received a letter from the DTCC that stated their conclusion that violations of the ITAR had occurred, but that the case was being closed without civil penalty. The DTCC reserves the right to reopen the case if through repeated future violations they determine that the circumstances warrant initiation of administrative proceedings in accordance with Part 128 of the ITAR.

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

**12. Shareholders Equity**

*Common Stock*

The activity related to common shares outstanding for the years ended December 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Beginning of year . . . . .	18,494	18,236	21,917
Issuance of common stock on exercise of stock options . . . . .	1	—	346
Issuance of restricted common stock, net of cancellations . . . . .	647	606	25
Issuance of common stock from purchase of Employee Stock Purchase Plan shares . . . . .	94	94	70
Issuance of common stock for stock bonuses, net of shares for tax . . . .	10	90	82
Cancellation of stock for withholding tax for vested shares . . . . .	(156)	(94)	(181)
Common stock buyback . . . . .	<u>(804)</u>	<u>(438)</u>	<u>(4,023)</u>
End of Year . . . . .	<u>18,286</u>	<u>18,494</u>	<u>18,236</u>

*Preferred Stock*

The Company is authorized to issue up to 5,000,000 shares of preferred stock in one or more series, each with a par value of \$0.001 per share. As of December 31, 2010 and 2009, no shares of preferred stock were issued or outstanding.

**13. Stock-Based Compensation**

The consolidated statements of operations include \$4.6 million and \$3.4 million of stock compensation expense in continuing operations for the years ended December 31, 2010 and 2009, respectively. The consolidated statements of operations include \$4.2 million of stock compensation expense in continuing operations and \$0.2 million in discontinued operations for the year ended December 31, 2008. The Company did not capitalize any stock compensation expense during the years ended December 31, 2010, 2009, and 2008.

Total stock-based compensation is reflected in the consolidated statements of operations as follows:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cost of revenues . . . . .	\$ 415	\$ 334	\$ 376
Research and development . . . . .	674	634	582
Sales and marketing . . . . .	975	500	609
General and administrative . . . . .	2,546	1,894	2,637
Restructuring charges, net . . . . .	—	—	11
Total continuing operations . . . . .	<u>4,610</u>	<u>3,362</u>	<u>4,215</u>
Discontinued operations . . . . .	—	—	187
Total . . . . .	<u>\$4,610</u>	<u>\$3,362</u>	<u>\$4,402</u>

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

*Restricted Stock- Serviced Based*

The Company grants restricted shares as employee incentives as permitted under the Company's 1997 Stock Plan, as amended and restated ("1997 Stock Plan"). In connection with the grant of restricted stock to employees, the Company records deferred stock compensation representing the fair value of the common stock on the date the restricted stock is granted. Stock compensation expense is recorded ratably over the vesting period of the applicable shares. These grants vest over various periods, but typically vest over four years. During the years ended December 31, 2010, 2009, and 2008, the Company annually awarded restricted stock to eligible employees. During 2008 and 2009, the Company granted restricted stock to eligible new employees for incentive purposes.

During the year ended December 31, 2010, the Company issued 743,250 shares of restricted stock with a grant date fair value of \$4.6 million and recorded cancellations of 164,600 shares with a grant date fair value of \$0.9 million. During the year ended December 31, 2009, the Company issued 600,050 shares of restricted stock with a grant date fair value of \$2.5 million and recorded cancellations of 41,817 shares with a grant date fair value of \$0.3 million. For the year ended December 31, 2008, the Company issued 334,182 shares of restricted stock with a grant date fair value of \$2.3 million and recorded cancellations of 223,188 shares with a grant date fair value of \$2.0 million.

During 2010, 450,765 restricted shares vested with a grant date fair value of \$3.2 million and intrinsic value of \$2.5 million. During 2009, 265,109 restricted shares vested with a grant date fair value of \$2.3 million and intrinsic value of \$1.7 million. During 2008, 406,562 restricted shares vested with a grant date fair value of \$3.7 million and intrinsic value of \$2.8 million. With the sale of MSG in January 2008, 146,010 shares of restricted stock for MSG employees did not vest.

The Company recorded amortization expense for service-based restricted stock of \$3.1 million and \$2.7 million for the years ended December 31, 2010 and 2009, respectively. For the year ended December 31, 2008 the Company recorded amortization expense for restricted stock of \$2.9 million for continuing operations and \$0.2 million for discontinued operations. As of December 31, 2010, the unrecognized compensation expense related to the unvested portion of the Company's restricted stock was approximately \$4.5 million, net of estimated forfeitures to be recognized through 2014 over a weighted average period of 1.9 years.

The following table summarizes restricted stock activity for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Shares</b>			
<b>Unvested Restricted Stock Awards — beginning of year</b> . . . . .	1,146,431	853,307	1,148,875
Shares awarded . . . . .	743,250	600,050	334,182
Shares vested . . . . .	(450,765)	(265,109)	(406,562)
Shares cancelled . . . . .	<u>(164,600)</u>	<u>(41,817)</u>	<u>(223,188)</u>
<b>Unvested Restricted Stock Awards — end of year</b> . . . . .	<u><u>1,274,316</u></u>	<u><u>1,146,431</u></u>	<u><u>853,307</u></u>
<b>Weighted Average Fair Value</b>			
<b>Unvested Restricted Stock Awards — beginning of year</b> . . . . .	\$ 6.14	\$ 8.29	\$ 9.19
Shares awarded . . . . .	6.19	4.24	6.75
Shares vested . . . . .	7.00	8.67	9.14
Shares cancelled . . . . .	<u>5.64</u>	<u>6.85</u>	<u>9.08</u>
<b>Unvested Restricted Stock Awards — end of year</b> . . . . .	\$ 5.93	\$ 6.14	\$ 8.29
<b>Stock Options</b>			

PCTEL, INC.

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For the Year Ended: December 31, 2010

The Company grants stock options to purchase the common stock. The Company issues stock options with exercise prices no less than the fair value of the Company's stock on the grant date. Employee options contain gradual vesting provisions, whereby 25% vest one year from the date of grant and thereafter in monthly increments over the remaining three years. The Board of Directors options vest on the first anniversary of date of grant. Stock options may be exercised at any time prior to their expiration date or within ninety days of termination of employment, or such shorter time as may be provided in the related stock option agreement. Historically, the Company has granted stock options with a ten year life. Beginning with options granted in July 2010, the company granted stock options with a seven year life. During 2008 and 2010, the Company awarded stock options to eligible new employees for incentive purposes.

The fair value of each unvested option was estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models may not necessarily provide a reliable single measure of the fair value of the employee stock options.

During the year ended December 31, 2010, the Company issued 24,500 options with a weighted average grant date fair value of \$2.66. The Company received proceeds of \$5 from the exercise of 781 options. The intrinsic value of these options exercised was \$1. During the year ended December 31, 2009, the Company did not issue stock options and there were no stock option exercises. During the year ended December 31, 2008, the Company issued 127,500 options with a weighted average fair value of \$1.97 and received proceeds of \$1.9 million from the exercise of 510,573 options. The intrinsic value of the options exercised was \$1.4 million. With the sale of MSG in January 2008, 76,071 outstanding options for the MSG employees did not vest.

The range of exercise prices for options outstanding and exercisable at December 31, 2010 was \$5.50 to \$12.16. The following table summarizes information about stock options outstanding under all stock option plans:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 5.50 — \$ 7.20 . . . . .	223,223	4.50	\$ 6.84	189,472	\$ 6.95
7.27 — 7.93 . . . . .	196,346	3.34	7.68	194,752	7.68
7.95 — 8.48 . . . . .	168,847	1.79	8.08	168,847	8.08
8.49 — 8.84 . . . . .	166,100	3.82	8.71	164,125	8.71
9.09 — 9.16 . . . . .	246,627	5.15	9.13	246,627	9.13
9.19 — 10.25 . . . . .	186,400	4.05	9.70	179,774	9.70
10.46 — 10.75 . . . . .	187,720	3.42	10.69	187,166	10.69
10.80 — 11.68 . . . . .	168,050	3.37	11.27	168,050	11.27
11.84 — 11.84 . . . . .	47,000	3.12	11.84	47,000	11.84
12.16 — 12.16 . . . . .	<u>6,400</u>	<u>3.30</u>	<u>12.16</u>	<u>6,400</u>	<u>12.16</u>
\$5.50 — \$12.16 . . . . .	1,596,713	3.76	\$ 9.04	1,552,213	\$ 9.10

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

The weighted average contractual life and intrinsic value at December 31, 2010 was the following:

	Weighted Average Contractual Life (years)	Intrinsic Value
Options Outstanding .....	3.76	\$2
Options Exercisable .....	3.65	\$0

The intrinsic value is based on the share price of \$6.00 at December 31, 2010.

A summary of the Company's stock option activity and shares available under all of the Company's stock plans as of December 31:

	2010		2009		2008	
	Shares Available	Options Outstanding	Shares Available	Options Outstanding	Shares Available	Options Outstanding
<b>Beginning of Year</b> .....	2,224,384	2,260,853	2,839,709	2,360,646	2,079,011	3,824,912
Shares authorized .....	1,700,000	—	—	—	—	—
Options granted .....	(24,500)	24,500	—	—	(127,500)	127,500
Restricted stock awards ...	(743,250)	—	(600,050)	—	(334,182)	—
Restricted shares cancelled .....	164,600	—	41,817	—	223,188	—
Bonus and Director shares awarded .....	(39,830)	—	(156,885)	—	(82,001)	—
Options exercised .....	—	(781)	—	—	—	(510,573)
Options forfeited .....	677,187	(677,187)	16,362	(16,362)	155,112	(155,112)
Options cancelled/expired ..	10,672	(10,672)	83,431	(83,431)	926,081	(926,081)
Shares expired .....	(7,500)	—	—	—	—	—
<b>End of Year</b> .....	<u><u>3,961,763</u></u>	<u><u>1,596,713</u></u>	<u><u>2,224,384</u></u>	<u><u>2,260,853</u></u>	<u><u>2,839,709</u></u>	<u><u>2,360,646</u></u>
<b>Exercisable</b> .....		<u><u>1,552,213</u></u>		<u><u>2,176,541</u></u>		<u><u>2,061,700</u></u>
<b>Weighted average exercise price:</b>						
<b>Outstanding at Beginning of Year</b> .....	\$ 9.80		\$ 9.80		\$ 9.64	
Options granted .....		6.13		—		7.28
Options exercised .....		6.16		—		7.37
Options forfeited .....		11.46		9.65		9.19
Options cancelled/expired ..		8.70		9.89		10.25
<b>Outstanding at End of Year</b> .....	<u><u>\$ 9.04</u></u>		<u><u>\$ 9.80</u></u>		<u><u>\$ 9.80</u></u>	
<b>Exercisable at End of Year</b> .....	<u><u>\$ 9.10</u></u>		<u><u>\$ 9.84</u></u>		<u><u>\$ 10.00</u></u>	

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yield. . . . .	None	—	None
Risk-free interest rate . . . . .	0.6%	—	2.7%
Expected volatility. . . . .	50%	—	40%
Expected life (in years) . . . . .	5.1	—	2.4

The risk-free interest rate was based on the U.S. Treasury yields with remaining term that approximates the expected life of the options granted. The Company uses a dividend yield of “None” in the valuation model for stock options. The Company has paid one cash dividend in its history which was paid in May 2008. This special dividend was a partial distribution of the proceeds received from the sale of MSG. The Company does not anticipate the payment of regular dividends in the future. The Company calculates the volatility based on a five-year historical period of the Company’s stock price. The Company incorporates a forfeiture rate based on historical data in the expense calculation. The expected life used for options granted is based on historical data of employee exercise performance.

Total stock compensation expense, net of forfeitures was \$48, \$0.1 million and \$0.5 million in continuing operations for stock options for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, the unrecognized compensation expense related to the unvested portion of the Company’s stock options was approximately \$0.1 million, net of estimated forfeitures to be recognized through 2014 over a weighted average period of 1.5 years.

**Performance Units**

The Company grants performance units to certain executive officers. Shares are earned upon achievement of defined performance goals such as revenue and earnings. Certain performance units granted are subject to a service period before vesting. The fair value of the performance units issued is based on the company’s stock price on the date the performance units are granted. The Company records expense for the performance units based on estimated achievement of the performance goals.

During the year ended December 31, 2010, the Company granted 100,000 performance units with a grant date fair value of \$0.6 million and cancelled 24,726 performance units with a grant date fair value of \$0.2 million. During the year ended December 31, 2009, the Company did not issue any performance units and did not record any cancellations of performance units. During the year ended December 31, 2008, the Company granted 25,000 performance units with a grant date fair value of \$0.2 million and cancelled 10,326 performance units with a grant date fair value of \$0.1 million.

No performance units vested during 2010. During 2009, 10,342 performance units vested with a grant date fair value of \$82 and intrinsic value of \$50. During 2008, 5,330 performance units vested with a grant date fair value of \$56 and intrinsic value of \$33. The Company recorded stock compensation expense of \$0.4 million, \$0, and \$0.1 million for performance units for the years ended December 31, 2010, 2009, and 2008, respectively. As of December 31, 2010, the unrecognized compensation expense related to the performance units expected to vest was approximately \$0.5 million to be recognized through 2016 over a weighted average period of 2.5 years.



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The following summarizes the performance unit activity during the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><u>Unvested Performance Units</u></b>			
<b>Beginning of Year</b> .....	86,002	96,344	87,000
Units awarded .....	100,000	—	25,000
Units vested .....	—	(10,342)	(5,330)
Units cancelled .....	<u>(24,726)</u>	<u>—</u>	<u>(10,326)</u>
<b>End of Year</b> .....	<u>161,276</u>	<u>86,002</u>	<u>96,344</u>
<b><u>Weighted Average Fair Value</u></b>			
<b>Beginning of year</b> .....	\$ 9.65	\$ 9.47	\$ 10.42
Units awarded .....	6.22	—	6.75
Units vested .....	—	7.97	10.42
Units cancelled .....	<u>7.86</u>	<u>—</u>	<u>10.42</u>
<b>End of year</b> .....	\$ 7.79	\$ 9.65	\$ 9.47

**Restricted Stock Units**

The Company grants restricted stock units as employee incentives as permitted under the Company's 1997 Stock Plan. Employee restricted stock units are time-based awards and are amortized over the vesting period. At the vesting date, these units are converted to shares of common stock.

During the year ended December 31, 2010, the Company granted 6,000 time-based restricted stock units with a grant date fair value of \$37. During the year ended December 31, 2009, the Company granted 32,850 time-based restricted stock units with a grant date fair value of \$220. During the year ended December 31, 2010, 625 restricted stock units vested with a grant date fair value of \$4 and intrinsic value of \$4. During the year ended December 31, 2009 12,500 restricted stock units vested with a grant date fair value of \$87 and intrinsic value of \$67, and 17,850 restricted stock units were cancelled with a grant date fair value of \$112. There was no activity related to restricted stock units in the years ended December 31, 2008. The Company recorded stock compensation expense of \$11 and \$87 for restricted stock units in the years ended December 31, 2010 and 2009, respectively.

The following summarizes the restricted stock unit activity during the year ended December 31:

	<u>2010</u>	<u>2009</u>
<b><u>Unvested Restricted Stock Units</u></b>		
<b>Beginning of Year</b> .....	2,500	—
Units awarded .....	6,000	32,850
Units vested .....	(625)	(12,500)
Units cancelled .....	<u>—</u>	<u>(17,850)</u>
<b>End of Year</b> .....	<u>7,875</u>	<u>2,500</u>
<b><u>Weighted Average Fair Value</u></b>		
<b>Beginning of year</b> .....	\$ 5.86	\$ —
Units awarded .....	6.22	6.68
Units vested .....	5.86	6.93
Units cancelled .....	<u>—</u>	<u>6.27</u>
<b>End of year</b> .....	\$ 6.13	\$ 5.86

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

**Employee Stock Purchase Plan (“ESPP”)**

In May 1998, the Company reserved a total of 800,000 shares of common stock for future issuance under the Company’s ESPP, plus annual increases equal to the least of (i) 350,000 shares (ii) 2% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. The annual increase was the ESPP’s “evergreen” provision. The Board of Directors elected not to increase the shares in the Purchase Plan in January 2007. In June 2007, the stockholders approved an amended Purchase Plan whereby the shares were reduced to 750,000 and the evergreen provision was eliminated. The Purchase Plan was also extended to 2018. The Purchase Plan enables eligible employees to purchase common stock at the lower of 85% of the fair market value of the common stock on the first or last day of each offering period. Each offering period is six months. During 2010, 2009, and 2008, 93,656, 93,901, and 69,402 shares were issued under the ESPP, respectively. As of December 31, 2010, the Company had 445,133 shares remaining that can be issued under the Purchase Plan.

The following summarizes the Purchase Plan activity during the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><u>Shares</u></b>			
<b>Outstanding, beginning of year</b> . . . . .	—	—	—
Granted . . . . .	93,656	93,901	69,402
Vested . . . . .	<u>(93,656)</u>	<u>(93,901)</u>	<u>(69,402)</u>
<b>Outstanding, end of year</b> . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
<b><u>Weighted Average Fair Value at Grant Date</u></b>			
<b>Outstanding, beginning of year</b> . . . . .	\$ —	\$ —	\$ —
Granted . . . . .	1.69	1.57	2.03
Vested . . . . .	<u>1.69</u>	<u>1.57</u>	<u>2.03</u>
<b>Outstanding, end of year</b> . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Based on the 15% discount and the fair value of the option feature of this plan, this plan is considered compensatory. Compensation expense is calculated using the fair value of the employees’ purchase rights under the Black-Scholes model. The Company recognized compensation expense of \$0.2 million, \$0.1 million and \$0.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. The weighted average estimated fair value of purchase rights under the ESPP was \$1.69, \$1.57, and \$2.03 for the years ended December 31, 2010, 2009, and 2008, respectively.

The Company calculated the fair value of each employee stock purchase grant on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	<b>Employee Stock Purchase Plan</b>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yield . . . . .	None	None	None
Risk-free interest rate . . . . .	0.4%	0.8%	3.0%
Expected volatility . . . . .	49%	48%	40%
Expected life (in years) . . . . .	0.5	0.5	0.5

The risk-free interest rate was based on the U.S. Treasury yields with remaining term that approximates the expected life of the options granted. The Company uses a dividend yield of “None” in the valuation model for shares related to the Purchase Plan. The Company has only issued one cash dividend in its history which was paid in May 2008. This special dividend was a partial distribution of the proceeds received from the sale of MSG. The Company

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

does not anticipate the payment of regular dividends in the future. The Company calculates the volatility based on a five-year historical period of the Company's stock price. The expected life used is based on the offering period.

**Short Term Bonus Incentive Plan**

Bonuses related to the Company's Short Term Incentive Plan ("STIP") are paid in the Company's common stock to executives and in cash to non-executives. The shares earned under the plan are issued in the first quarter following the end of the fiscal year. In March 2010, the Company issued 1,952 shares, net of shares withheld for payment of withholding tax under the 2009 STIP, and in October 2010, under a severance agreement, issued another 6,339 shares, net of shares withheld for payment of withholding tax, under the 2010 STIP. In February 2009, the Company issued 90,173 shares, net of shares withheld for payment of withholding tax, under the 2008 Short Term Incentive Plan. The Company recognized stock compensation expense of \$0.6 million, \$19 and \$0.6 million for stock bonuses in the years ended December 31, 2010, 2009 and 2008, respectively.

**Board of Director Equity Awards**

Beginning in 2009, the Board of Directors elected to receive their annual equity award in the form of shares of the Company's stock or in shares of vested restricted stock units. During the year ended December 31, 2010, the Company issued 27,971 shares of the Company's stock with a fair value of \$172 and issued 16,099 restricted stock units with fair value of \$99 that vested immediately to the Board of Directors for the annual equity awards. During the year ended December 31, 2009, the Company issued 21,326 shares of the Company's stock with a fair value of \$132 and issued 22,458 restricted stock units with fair value of \$139 that vested immediately to the Board of Directors for the annual equity awards. The Company recorded stock compensation expense of \$0.3 million for director awards in the years ended December 31, 2010 and 2009, respectively.

**Employee Withholding Taxes on Stock Awards**

For ease in administering the issuance of stock awards, the Company holds back shares of vested restricted stock awards and short-term incentive plan stock awards for the value of the statutory withholding taxes. During the years ended December 31, 2010, 2009 and 2008, the Company paid \$0.9 million, \$0.8 million and \$1.1 million for withholding taxes related to stock awards.

**Stock Plans**

*1997 Stock Plan*

In November 1996, the Board of Directors adopted and approved the 1997 Stock Plan ("1997 Plan"). Under the 1997 Plan, the Board may grant to employees, directors and consultant's options to purchase the common stock and/or stock purchase rights at terms and prices determined by the Board. In August 1999, the Board of Directors and the stockholders approved an amendment and restatement of the 1997 Plan that increased the number of authorized shares of the common stock the Company may issue under the 1997 Plan to 5,500,000. The plan allowed further annual increases in the number of shares authorized to be issued under the 1997 Plan by an amount equal to the lesser of (i) 700,000 shares, (ii) 4% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. Effective at the annual shareholders meeting on June 5, 2006, the shareholders approved an amended and restated 1997 Plan ("New 1997 Plan") that expires in 2016. The existing shares available for issuance and options outstanding were transferred from the 1997 Plan to the New 1997 Plan. The New 1997 Plan provides for the issuance of 2,300,000 shares plus any shares which have been reserved under the 1998 Directors Option Plan ("Directors Plan") and any shares returned to the Directors Plan. In connection with the approval of the New 1997 Plan, an additional 716,711 shares were authorized. On June 15, 2010, the Company's stockholders approved the amendment and restatement of the 1997 Stock Plan to, among other things increase the number of shares of common stock authorized for issuance under the 1997 Stock Plan. The Company registered an additional 1,700,000 shares of its common stock under a Registration Statement on Form S-8

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

filed with the SEC with an effective date of July 20, 2010. As of December 31, 2010, options to acquire 1,335,801 shares were outstanding and a total of 3,375,574 shares remain available for future grants.

***1998 Director Option Plan***

The Directors Plan became effective following the Company’s initial public offering in October 1999. A total of 400,000 shares were authorized under the Directors Plan. Effective with the annual shareholders meeting on June 5, 2006, the Directors Plan was merged into the New 1997 Plan. Effective with the merger, 75,000 available shares were transferred from the Directors Plan to the New 1997 Plan. No further awards will be made under the Director Plan, but it will continue to govern awards previously granted thereunder. Future awards to the Company’s directors will be made under the New 1997 Plan.

***2001 Non-Statutory Stock Option Plan***

In August 2001, the Board of Directors adopted and approved the 2001 Non-statutory Stock Option Plan (“2001 Plan”). Options granted under the 2001 Plan may be exercised at any time within ten years from the date of grant or within ninety days of termination of employment, or such shorter time as may be provided in the related stock option agreement. As of December 31, 2009, options to acquire 265,846 shares were outstanding of the 750,000 shares reserved for issuance, and 300,531 shares remained available for future issuance. As of June 15, 2010 the stockholders approved certain changes to the 1997 Stock Plan that included the following: (i) there would be no additional grants from the 2001 Stock Plan; and (ii) any shares returned (or that would have otherwise returned) to the 2001 Plan, would be added to the shares of common stock authorized for issuance under the 1997 Stock Plan. As of December 31, 2010, options to acquire 215,912 shares were outstanding and 349,684 shares were reserved for issuance. The 2001 Plan will terminate in August 2011.

***Executive Plan***

In 2001, in connection with the hiring and appointment of two executive officers of PCTEL, the Company granted an aggregate amount of 300,000 options at \$8.00 per share outside of any stock option plan, pursuant to individual stock option agreements. As of December 31, 2010, 45,000 options are outstanding under the Executive Plan.

**Common Stock Reserved for Future Issuance**

At December 31, 2010 the Company had 5,767,104 shares of common stock that could potentially be issued under various stock-based compensation plans described in Note 13. A summary of the reserved shares of common stock for future issuance are as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
1997 Stock Plan . . . . .	4,711,375	3,734,728
2001 Stock Plan . . . . .	565,596	566,377
Executive Plan . . . . .	45,000	45,000
Employee Stock Purchase Plan . . . . .	445,133	538,789
Total shares reserved . . . . .	<u>5,767,104</u>	<u>4,884,894</u>

These amounts include the shares available for grant and the options outstanding.

**14. Stock Repurchases**

The Company repurchases shares of common stock under share repurchase programs authorized by the Board of Directors. All share repurchase programs are announced publicly. On November 21, 2008, the Board of Directors

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

authorized the repurchase of shares up to a value of \$5.0 million. In August 2010, the Company reached the authorized value under the November 2008 plan. On August 4, 2010, the Company’s Board of Directors authorized the repurchase of shares up to an additional value of \$5.0 million. As of December 31, 2010, the Company has \$2.6 million remaining to be purchased under the August 2010 program.

The following table is a summary of the share repurchases by year for the fiscal years ended December 31:

<u>Fiscal Year</u>	<u>Shares</u>	<u>Amount</u>
2008 .....	4,022,616	\$34,157
2009 .....	438,413	\$ 2,509
2010 .....	804,486	\$ 4,933

**15. Segment, Customer and Geographic Information**

The Company operates in one segment and there are no operating segments aggregated for reporting purposes.

The Company’s revenue to customers outside of the United States, as a percent of total revenues, is as follows:

<u>Region</u>	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Europe, Middle East, & Africa .....	24%	25%	25%
Asia Pacific .....	11%	14%	12%
Other Americas .....	<u>9%</u>	<u>7%</u>	<u>8%</u>
Total Foreign sales .....	<u>44%</u>	<u>46%</u>	<u>45%</u>

One customer had accounted for revenues of 10% or greater in each of the three previous fiscal years as follows:

<u>Customer</u>	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ascom .....	10%	10%	11%

Ascom, from which the Company acquired scanning receiver assets in December 2009, continues to purchase scanning receiver products from the Company. Ascom acquired Comarco’s WTS business in January 2009. Comarco’s scanning receiver business (“WTS scanners receivers”) was a small part of Comarco’s WTS segment. As of December 31, 2010 one customer accounts receivable balance represented 14% of gross receivables and no other customer accounts receivable balance represented greater than 10% of gross receivables. At December 31, 2009, no customer accounts receivable balance represented greater 10% or greater of gross receivable.

The long-lived assets by geographic region as of December 31, 2010 and 2009 are as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
United States .....	\$39,238	\$43,566
All Other .....	<u>668</u>	<u>785</u>
	<u>\$39,906</u>	<u>\$44,351</u>

PCTEL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)  
For the Year Ended: December 31, 2010

16. Benefit Plans

*401(k) Plan*

The Company's 401(k) plan covers all of the U.S. employees beginning the first of the month following the first month of their employment. Under this plan, employees may elect to contribute up to 15% of their current compensation to the 401(k) plan up to the statutorily prescribed annual limit. The Company may make discretionary contributions to the 401(k) plan. The Company recorded expense for employer contributions to the 401(k) plan of \$0.6 million in each of the years ended December 31, 2010, 2009 and 2008.

*Foreign Employee Benefit Plans*

The Company contributes to various retirement plans for foreign employees. The Company made contributions to these plans of \$103, \$75, and \$80 for the years ended December 31, 2010, 2009, and 2008 respectively.

*Executive Deferred Compensation Plan*

The Company provides an Executive Deferred Compensation Plan for executive officers and senior managers. Under this plan, the executives may defer up to 50% of salary and 100% of cash bonuses. In addition, the Company provides a 4% matching cash contribution which vests over three years subject to the executive's continued service. The executive has a choice of investment alternatives from a menu of mutual funds. The plan is administered by the Compensation Committee and an outside party tracks investments and provides the Company's executives with quarterly statements showing relevant contribution and investment data. Upon termination of employment, death, disability or retirement, the executive will receive the value of his or her account in accordance with the provisions of the plan. Upon retirement, the executive may request to receive either a lump sum payment, or payments in annual installments over 15 years or over the lifetime of the participant with 20 annual payments guaranteed. At December 31, 2010 and 2009, the deferred compensation obligation was \$1.2 million and \$0.9 million, respectively, and was included in long-term liabilities in the consolidated balance sheets. The Company funds the obligation related to the Executive Deferred Compensation Plan with corporate-owned life insurance policies. The cash surrender value of such policies is included in other noncurrent assets in the consolidated balance sheets.

17. Quarterly Data (Unaudited)

	Quarters Ended,			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenues . . . . .	\$15,573	\$17,807	\$17,314	\$18,560
Gross profit . . . . .	7,219	8,114	7,013	8,766
Operating loss . . . . .	(1,440)	(1,690)	(1,498)	(1,305)
Loss before provision for income taxes . . . . .	<u>(1,281)</u>	<u>(1,603)</u>	<u>(1,421)</u>	<u>(1,026)</u>
Net loss . . . . .	<u>\$ (795)</u>	<u>\$ (1,028)</u>	<u>\$ (929)</u>	<u>\$ (704)</u>
Basic loss per share:				
Net loss . . . . .	\$ (0.05)	\$ (0.06)	\$ (0.05)	\$ (0.04)
Diluted loss per share:				
Net loss . . . . .	\$ (0.05)	\$ (0.06)	\$ (0.05)	\$ (0.04)
Shares used in computing basic loss per share . . . . .	17,487	17,540	17,360	17,092
Shares used in computing diluted loss per share . . . . .	17,487	17,540	17,360	17,092

**PCTEL, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
**For the Year Ended: December 31, 2010**

	Quarters Ended,			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenues . . . . .	\$14,139	\$13,368	\$13,709	\$14,786
Gross profit . . . . .	6,671	6,058	6,426	6,964
Operating loss from continuing operations . . . .	(2,625)	(2,195)	(814)	(551)
Loss before provision for income taxes . . . . .	<u>(2,459)</u>	<u>(1,994)</u>	<u>(439)</u>	<u>(374)</u>
Net loss . . . . .	<u><u>\$ (1,863)</u></u>	<u><u>\$ (1,293)</u></u>	<u><u>\$ (755)</u></u>	<u><u>\$ (572)</u></u>
Basic loss per share:				
Net loss . . . . .	\$ (0.11)	\$ (0.07)	\$ (0.04)	\$ (0.03)
Diluted loss per share:				
Net loss . . . . .	\$ (0.11)	\$ (0.07)	\$ (0.04)	\$ (0.03)
Shares used in computing basic loss per share . . . . .	17,545	17,616	17,559	17,446
Shares used in computing diluted loss per share . . . . .	17,545	17,616	17,559	17,446

In the quarter ended December 31, 2010, the Company recorded intangible asset impairment expense of \$1.1 million and in the quarter ended March 31, 2009, the Company recorded expense of goodwill impairment expense of \$1.5 million.

**18. Subsequent event — PCTEL Secure**

On January 5, 2011, the Company formed PCTEL Secure LLC, a joint venture limited liability company with Eclipse Design Technologies, Inc. The joint venture will provide engineering services and design platforms that enable secure applications. The Company contributed \$2.5 million in cash on the formation of the venture in return for 51% ownership of the joint venture.

**Item 9: *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None

**Item 9A: *Controls and Procedures***

**(a) Evaluation of Disclosure Controls and Procedures**

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined by Rule 13a-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in our reports that we file or submit under Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (GAAP) and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of PCTEL;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of PCTEL are being made only in accordance with authorizations of management and directors of PCTEL
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of PCTEL’s assets that could have a material effect on the financial statements.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making its assessment of internal control over financial reporting, management used the criteria described in “*Internal Control — Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our management’s assessment of internal control over financial reporting, management has concluded that, as of December 31, 2010, our internal control over financial reporting was effective to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Grant Thornton LLP, our independent registered public accounting firm, has audited and issued their report on our internal control over reporting, which is included herein.

**(c) Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.



**Item 9B: *Other Information***

None.

**PART III**

**Item 10: *Directors, Executive Officers and Corporate Governance***

The information with respect to the directors and the board committees of the Company required to be included pursuant to this Item 10 is included in the 2011 Proxy Statement which will be filed with the Securities and Exchange Commission (“SEC”) pursuant to Rule 14a-6 under the Exchange Act in accordance with applicable SEC deadlines, and is incorporated in this Item 10 by reference.

The information regarding executive and director compensation in response to this item is included in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein. Information included under the caption “Compensation Committee Report” in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders is incorporated by reference herein; however, this information shall not be deemed to be “soliciting material” or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or the liabilities of Section 18 of the Securities Exchange Act of 1934.

**Item 11: *Executive Compensation***

The information regarding security ownership is included under the caption “Ownership of PCTEL Common Stock” in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein.

**Item 12: *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information regarding security ownership is included under the caption “Ownership of PCTEL Common Stock” in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein.

The information regarding securities authorized for issuance under equity compensation plans is included under the caption “Equity Compensation Plan Information” in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein.

**Item 13: *Certain Relationships and Related Transactions and Director Independence***

The information required by this item is incorporated by reference to the sections entitled “Certain Relationships and Related Transactions” and “Corporate Governance” contained in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein.

**Item 14: *Principal Accounting Fees and Services***

Information regarding principal accounting fees and services is under the caption “Independent Public Accountants” in PCTEL’s proxy statement for the 2011 Annual Meeting of Stockholders and is incorporated by reference herein.

**PART IV**

**Item 15: Exhibits and Financial Statement Schedules**

**(a) (1) Financial Statements**

The Consolidated Financial Statements are included in Part II, Item 8 of this Annual Report on Form 10-K on pages 35 to 72.

**(a) (2) Financial Statement Schedules**

The following financial statement schedule is filed as a part of this Report under “Schedule II” immediately preceding the signature page: Schedule II — Valuation and Qualifying Accounts for the three fiscal years ended December 31, 2010.

All other information called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

**PCTEL, INC.**

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**(in thousands)**

	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Addition (Deductions)</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2008:				
Allowance for doubtful accounts . . . . .	\$ 227	(28)	(78)	\$ 121
Warranty reserves . . . . .	\$ 192	74	(73)	\$ 193
Deferred tax asset valuation allowance . . . . .	\$10,956	(9,805)	—	\$1,151
Year Ended December 31, 2009:				
Allowance for doubtful accounts . . . . .	\$ 121	(106)	74	\$ 89
Warranty reserves . . . . .	\$ 193	(85)	120	\$ 228
Deferred tax asset valuation allowance . . . . .	\$ 1,151	(468)	(35)	\$ 648
Year Ended December 31, 2010:				
Allowance for doubtful accounts . . . . .	\$ 89	87	(16)	\$ 160
Warranty reserves . . . . .	\$ 228	46	(17)	\$ 257
Deferred tax asset valuation allowance . . . . .	\$ 648	54	—	\$ 702

**(a) (3) Exhibits (numbered in accordance with Item 601 of Regulation S-K)**

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
2.1	Asset Purchase Agreement, dated December 10, 2007, by and between Smith Micro Software, Inc. and PCTEL, Inc. Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Section 6.01(b)(2) of Regulation S-	Incorporated by reference to the exhibit bearing the same number filed with the Registrant’s Current Report on Form 8-K dated December 12, 2007.
2.2	Asset Purchase Agreement, dated March 14, 2008, by and between Bluewave Antenna Systems, Ltd., and PCTEL, Inc.	Incorporated by reference to exhibit number 2.1 filed with the Registrant’s Current Report on Form 8-K dated March 17, 2008.
2.3	Asset Purchase Agreement, dated August 14, 2008, by and between SWT Scotland and PCTEL, Inc.	Incorporated by reference to exhibit number 2.1 filed with the Registrant’s Current Report on Form 8-K dated August 18, 2008.

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
2.4	Share Purchase Agreement dated January 5, 2009, by and between PCTEL, Inc., Gyles Panther and Linda Panther.	Incorporated by reference to exhibit number 2.1 filed with the Registrant's Current Report on Form 8-K dated January 6, 2009.
3.1	Amended and Restated Certificate of Incorporation of PCTEL, Inc.	Incorporated by reference to exhibit number 3.2 filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
3.2	Amended and Restated Bylaws of the Registrant	Incorporated by reference to exhibit number 3.3 filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
4.1	Specimen common stock certificate	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
10.1	Form of Indemnification Agreement between PCTEL, Inc. and each of its directors and officers	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
10.23	2001 Nonstatutory Stock Option Plan and form of agreements hereunder	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on October 3, 2001 (File No. 333-70886).
10.25	Employment Agreement between Jeffrey A. Miller and PCTEL, Inc., dated November 7, 2001	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
10.25.1	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Jeffrey A. Miller	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.26	Employment Agreement between John Schoen and the Registrant, dated November 12, 2001	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
10.26.1	Letter agreement dated August 22, 2006 amending the Employment Agreement, by, and between PCTEL, Inc. and John Schoen	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.32	Stock Option Agreement of Jeffrey A. Miller, dated November 15, 2001	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on December 14, 2001 (File No. 333-75204).
10.33	Stock Option Agreement of John Schoen, dated November 15, 2001	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on December 14, 2001 (File No. 333-75204).
10.37	Executive Deferred Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
10.38	Executive Deferred Stock Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
10.39	Board of Directors Deferred Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.40	Board of Directors Deferred Stock Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.44	Purchase and Sale Agreement dated November 1, 2004, between PCTEL, Inc. and Evergreen Brighton, L.L.C.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.48	Purchase Agreement dated April 14, 2005 between PCTEL Antenna Products Group, a wholly owned subsidiary of PCTEL, Inc. and Quintessence Publishing Company, Inc.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
10.49	Letter Agreement dated August 18, 2005 between PCTEL, Inc. and Biju Nair	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on August 23, 2005
10.50	Lease Agreement dated September 16, 2005 between PCTEL Maryland, Inc. and First Campus Limited Partnership for an office building located at 20410 Observation Drive, Germantown, MD 20876	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 10-Q for the quarter ended September 30, 2005
10.55	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Biju Nair	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.56	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Steve Deppe	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.59	1998 Employee Stock Purchase Plan and related standard form of agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2007.
10.60	Executive Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2007.
10.61	Employment Agreement dated September 5, 2007 between PCTEL, Inc., and Martin H. Singer	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.
10.62	Management Retention Agreement dated September 5, 2007 between PCTEL, Inc., and Martin H. Singer	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.
10.63	Form of Performance Share Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.
10.64	Form of Amended and Restated Management Retention Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on October 12, 2007.

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
10.65	Offer Letter dated May 16, 2007 with Robert Suastegui relating to Mr. Suastegui's employment	Incorporated by reference to exhibit number 10.61 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
10.66	Form of 1997 Stock Plan Performance Share Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.68	PCTEL, Inc., 1997 Stock Plan, as amended September 18, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 22, 2008.
10.69	PCTEL, Inc., 1997 Stock Plan Form of Stock Option Award Agreement, as amended September 18, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 22, 2008.
10.70	PCTEL, Inc., 2001 Nonstatutory Stock Option Plan, as amended November 7, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on November 13, 2008.
10.71	PCTEL, Inc, 2001 Nonstatutory Stock Option Plan Form of Stock Option Agreement, as amended November 7, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on November 13, 2008.
10.72	PCTEL, Inc, 1997 Stock Plan, as amended and restated June 15, 2010	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2010.
10.73	Limited Liability Company Agreement, dated January 5, 2011, by and between PCTEL, Inc. and Eclipse Design Technologies, Inc.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on January 11, 2011.
21.1	List of significant subsidiaries	Filed herewith
23.1	Consent of Grant Thornton LLP	Filed herewith
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13A-14(A) and 15(D)-14(A), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13A-14(A) and 15(D)-14(A), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

PCTEL, Inc.  
A Delaware corporation  
(Registrant)

/s/ MARTIN H. SINGER

\_\_\_\_\_  
Martin H. Singer  
*Chairman of the Board and  
Chief Executive Officer*

Dated: March 16, 2011

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Martin H. Singer and John Schoen, and each of them, his true and lawful attorneys-in-fact and agents, each with full power of substitution and re-substitution, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ MARTIN H. SINGER Martin H. Singer	Chairman of the Board, Chief Executive Officer (Principal Executive Officer) and Director	March 16, 2011
/s/ (JOHN SCHOEN) John Schoen	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2011
/s/ RICHARD C. ALBERDING Richard C. Alberding	Director	March 16, 2011
/s/ BRIAN J. JACKMAN Brian J. Jackman	Director	March 16, 2011
/s/ STEVEN D. LEVY Steven D. Levy	Director	March 16, 2011
/s/ GIACOMO MARINI Giacomo Marini	Director	March 16, 2011

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JOHN SHEEHAN</u> John Sheehan	Director	March 16, 2011
<u>/s/ CARL A. THOMSEN</u> Carl A. Thomsen	Director	March 16, 2011

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
2.1	Asset Purchase Agreement, dated December 10, 2007, by and between Smith Micro Software, Inc. and PCTEL, Inc. Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Section 6.01(b)(2) of Regulation S-	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K dated December 12, 2007.
2.2	Asset Purchase Agreement, dated March 14, 2008, by and between Bluewave Antenna Systems, Ltd., and PCTEL, Inc.	Incorporated by reference to exhibit number 2.1 filed with the Registrant's Current Report on Form 8-K dated March 17, 2008.
2.3	Asset Purchase Agreement, dated August 14, 2008, by and between SWT Scotland and PCTEL, Inc.	Incorporated by reference to exhibit number 2.1 filed with the Registrant's Current Report on Form 8-K dated August 18, 2008.
2.4	Share Purchase Agreement dated January 5, 2009, by and between PCTEL, Inc., Gyles Panther and Linda Panther.	Incorporated by reference to exhibit number 2.1 filed with the Registrant's Current Report on Form 8-K dated January 6, 2009.
3.1	Amended and Restated Certificate of Incorporation of PCTEL, Inc.	Incorporated by reference to exhibit number 3.2 filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
3.2	Amended and Restated Bylaws of the Registrant	Incorporated by reference to exhibit number 3.3 filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
4.1	Specimen common stock certificate	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
10.1+	Form of Indemnification Agreement between PCTEL, Inc. and each of its directors and officers	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (File No. 333-84707).
10.23+	2001 Nonstatutory Stock Option Plan and form of agreements hereunder	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on October 3, 2001 (File No. 333-70886).
10.25+	Employment Agreement between Jeffrey A. Miller and PCTEL, Inc., dated November 7, 2001	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
10.25.1+	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Jeffrey A. Miller	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.26+	Employment Agreement between John Schoen and the Registrant, dated November 12, 2001	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for fiscal year ended December 31, 2001.
10.26.1+	Letter agreement dated August 22, 2006 amending the Employment Agreement, by, and between PCTEL, Inc. and John Schoen	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.32+	Stock Option Agreement of Jeffrey A. Miller, dated November 15, 2001	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on December 14, 2001 (File No. 333-75204).
10.33+	Stock Option Agreement of John Schoen, dated November 15, 2001	Incorporated by reference herein to the Registrant's Registration Statement of Form S-8 filed on December 14, 2001 (File No. 333-75204).



<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
10.37+	Executive Deferred Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
10.38+	Executive Deferred Stock Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
10.39+	Board of Directors Deferred Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.40+	Board of Directors Deferred Stock Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.44	Purchase and Sale Agreement dated November 1, 2004, between PCTEL, Inc. and Evergreen Brighton, L.L.C.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10.48	Purchase Agreement dated April 14, 2005 between PCTEL Antenna Products Group, a wholly owned subsidiary of PCTEL, Inc. and Quintessence Publishing Company, Inc.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
10.49+	Letter Agreement dated August 18, 2005 between PCTEL, Inc. and Biju Nair	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on August 23, 2005
10.50	Lease Agreement dated September 16, 2005 between PCTEL Maryland, Inc. and First Campus Limited Partnership for an office building located at 20410 Observation Drive, Germantown, MD 20876	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 10-Q for the quarter ended September 30, 2005
10.55+	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Biju Nair	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.56+	Letter agreement dated August 22, 2006 amending the Employment Agreement, by and between PCTEL, Inc. and Steve Deppe	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.
10.59+	1998 Employee Stock Purchase Plan and related standard form of agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2007.
10.60+	Executive Compensation Plan	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2007.
10.61+	Employment Agreement dated September 5, 2007 between PCTEL, Inc., and Martin H. Singer	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
10.62+	Management Retention Agreement dated September 5, 2007 between PCTEL, Inc., and Martin H. Singer	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.
10.63+	Form of Performance Share Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 10, 2007.
10.64+	Form of Amended and Restated Management Retention Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on October 12, 2007.
10.65+	Offer Letter dated May 16, 2007 with Robert Suastegui relating to Mr. Suastegui's employment	Incorporated by reference to exhibit number 10.61 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
10.66+	Form of 1997 Stock Plan Performance Share Agreement	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.68+	PCTEL, Inc., 1997 Stock Plan, as amended September 18, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 22, 2008.
10.69+	PCTEL, Inc., 1997 Stock Plan Form of Stock Option Award Agreement, as amended September 18, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on September 22, 2008.
10.70+	PCTEL, Inc., 2001 Nonstatutory Stock Option Plan, as amended November 7, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on November 13, 2008.
10.71+	PCTEL, Inc, 2001 Nonstatutory Stock Option Plan Form of Stock Option Agreement, as amended November 7, 2008	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on November 13, 2008.
10.72+	PCTEL, Inc, 1997 Stock Plan, as amended and restated June 15, 2010	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on June 21, 2010.
10.73	Limited Liability Company Agreement, dated January 5, 2011, by and between PCTEL, Inc. and Eclipse Design Technologies, Inc.	Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on January 11, 2011.
21.1	List of significant subsidiaries	Filed herewith
23.1	Consent of Grant Thornton LLP	Filed herewith
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13A-14(A) and 15(D)-14(A), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith

<u>Exhibit No.</u>	<u>Description</u>	<u>Reference</u>
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13A-14(A) and 15(D)-14(A), as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	Filed herewith

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+ Management contract or compensatory plan or arrangement

**Subsidiary**

PCTEL (Shanghai) Electronics Company LTD

PCTEL (Tianjin) Electronics Company Ltd.

PCTEL Israel Ltd.

PCTEL Limited (United Kingdom)

PCTEL Private Wireless Ltd.

PCTEL Secure LLC

**State or Other Jurisdiction of  
Incorporation or Organization**

China

China

Israel

United Kingdom

India

Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated March 16, 2011, accompanying the consolidated financial statements, schedule and internal control over financial reporting included in the Annual Report of PCTEL, Inc. on Form 10-K for the year ended December 31, 2010. We hereby consent to the incorporation by reference of said reports in Registration Statements of PCTEL, Inc. on Form S-8 (File No. 333-69222, effective July 20, 2010, File No. 333-135586, effective July 3, 2006; File No. 333-122117, effective January 18, 2005; File No. 333-34910, effective April 17, 2000; File No. 333-61926, effective May 30, 2001; File No. 333-82120, effective February 4, 2002; File No. 333-103233, effective February 14, 2003; and File No. 333-112621 effective February 29, 2004).

/s/ Grant Thornton LLP

Chicago, Illinois

March 16, 2011

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULES 13a-14(a) and 15(d)-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Martin H. Singer, certify that:

1. I have reviewed this annual report on Form 10-K of PCTEL, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ MARTIN H. SINGER

Martin H. Singer

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULES 13a-14(a) and 15(d)-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Schoen, certify that:

1. I have reviewed this annual report on Form 10-K of PCTEL, Inc.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2011

/s/ JOHN SCHOEN

John Schoen

Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Martin H. Singer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of PCTEL, Inc. for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc. A signed original of this written statement required by Section 906 has been provided to PCTEL, Inc. and will be retained by PCTEL, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DATE: March 16, 2011

By: /s/ Martin H. Singer

NAME: MARTIN H. SINGER

Title: Chief Executive Officer

I, John Schoen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of PCTEL, Inc. for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc. A signed original of this written statement required by Section 906 has been provided to PCTEL, Inc. and will be retained by PCTEL, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DATE: March 16, 2011

By: s/ John Schoen

NAME: JOHN SCHOEN

Title: Chief Financial Officer





# CORPORATE INFORMATION

## **BOARD OF DIRECTORS**

Richard C. Alberding  
Retired Hewlett-Packard Executive

Brian J. Jackman  
Lead Director  
Retired Tellabs, Inc. Executive

Steven D. Levy  
Retired Lehman Brothers Executive

Giacomo Marini  
Founder and Managing Director  
Noventi

John R. Sheehan  
Senior Consultant  
London Perret Roche Group

Martin H. Singer  
Chief Executive Officer and  
Chairman of the Board

Carl A. Thomsen  
Retired Senior Vice President,  
Chief Financial Officer  
and Secretary, Stratex Networks, Inc.

## **ELECTED OFFICERS**

Martin H. Singer  
Chief Executive Officer and  
Chairman of the Board

John Schoen  
Chief Financial Officer

Jeffrey A. Miller  
Senior Vice President, Sales and  
Marketing

Varda A. Goldman  
Vice President and General Counsel

Anthony Kobrinetz  
Vice President, Technology and  
Operations

## **TRANSFER AGENT**

Wells Fargo Bank  
Shareowner Services  
161 North Concord Exchange South  
St. Paul, MN 55075-1139  
Tel: 1.800.468.9716  
Fax: 1.651.450.4078

## **INDEPENDENT PUBLIC ACCOUNTANTS**

Grant Thornton LLP  
Chicago, IL

## **LEGAL COUNSEL**

Ungaretti & Harris LLP  
Chicago, IL

## **ANNUAL MEETING**

The Annual Meeting of Stockholders will be held at 4:00 p.m. on Wednesday June 8, 2011, at the corporate offices of PCTEL located at: 471 Brighton Drive Bloomingdale, IL 60108 U.S.A.

## **INVESTOR RELATIONS**

For further information on the Company, additional copies of the Form 10-K filed with the Securities and Exchange Commission, or other financial information, please contact:

PCTEL, Inc.  
471 Brighton Drive  
Bloomingdale, IL 60108 U.S.A.  
Tel. 1.630.372.6800  
Fax. 1.630.372.8077

You may also contact us by sending an e-mail to: [investorrelations@pctel.com](mailto:investorrelations@pctel.com) or by visiting our web site at [www.pctel.com](http://www.pctel.com)

## **GLOBAL HEADQUARTERS**

471 Brighton Drive  
Bloomingdale, IL 60108 U.S.A.  
Tel. 1.630.372.6800  
Fax. 1.630.372.8077

## **OTHER OFFICES**

20410 Observation Drive, Suite 200  
Germantown, MD 20876 U.S.A.  
Tel: 1.301.515.0036  
Fax: 1.301.515.0037

249, No. 9 of Xingzhong Road  
Beichen Science and Technology  
Industrial Park  
Hi-Tech Industrial Park  
Tianjin, China  
Tel: +86.22.2666.6741  
Fax: +86.22.2666.7439