

PC TEL INC  
Form 10-K  
April 02, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2012**

**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:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

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, 2012, the last business day of the registrant's most recently completed second fiscal quarter, there were 18,481,607 shares of the registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing sale price of such shares on the NASDAQ Global Market on June 29, 2012) was approximately \$119,575,997. Shares of the registrant's common stock held by each executive officer and director and by each entity that owns 5% or more of the 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.

<b>Title</b>	<b>Outstanding</b>
Common Stock, par value \$.001 per share	18,463,886 as of March 31, 2013

**Documents Incorporated by Reference**

Certain sections of the registrant's definitive proxy statement relating to its 2013 Annual Stockholders Meeting to be held on June 12, 2013 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.



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**PCTEL, Inc.**

**Form 10-K**

**For the Fiscal Year Ended December 31, 2012**

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**PART I**

**Item 1: *Business***

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). 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 our 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 Annual Report on Form 10-K. Other factors not currently anticipated may also materially and adversely our results of operations, cash flows and financial position. There can be no assurance that future results will meet expectations. While we believe that the forward-looking statements in this Annual Report on Form 10-K are reasonable, the investors should not place undue reliance on any forward-looking statement. In addition, these statements speak only as of the date made. We do not undertake, and expressly disclaims, any obligation to update or alter any statements whether as a result of new information, future events or otherwise, except as may be required by applicable law.

**Overview**

PCTEL, Inc. ( PCTEL , the Company , we , ours , and us ) is a global leader in propagation and optimization solutions for the wireless industry. 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.

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.

PCTEL was incorporated in California in 1994 and reincorporated in Delaware in 1998. Our principal executive offices are located at 471 Brighton Drive, Bloomington, Illinois 60108. Our telephone number at that address is (630) 372-6800 and our website is [www.pctel.com](http://www.pctel.com). The information within, or that can be accessed through our website, is not part of this report.

**Antennas and Connected Solutions**

PCTEL is a leading supplier of antennas for private network, public safety and government applications, and site solutions for both private and public network, data, and communications applications. PCTEL s MAXRA<sup>®</sup>, Bluewave and Wi-Sys antenna solutions include high-value YAGI, land mobile radio ( LMR ), Wi-Fi, GPS, In Tunnel, Subway, and Broadband antennas (parabolic and flat panel). PCTEL s Connected Solutions products include specialized towers, enclosures, fiber optic panels, and fiber jumper cables that are engineered into site solutions. The vertical markets into which the antenna and site solutions are sold include supervisory control and data acquisition ( SCADA ), healthcare, energy, smart grid, precision agriculture, indoor wireless, telemetry, offloading, and wireless backhaul. Growth for antenna and site solutions is primarily driven by the increased use of wireless communications in these vertical markets. PCTEL s antenna and site solution products are primarily sold through distributors, value added reseller, and original equipment manufacturer ( OEM ) providers.

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We established our current antenna and site solutions product portfolio with a series of acquisitions. In 2004 the Company acquired MAXRAD, Inc. ( MAXRAD ), as well as certain product lines from Andrew Corporation ( Andrew ), which established its core product offerings in Wi-Fi, LMR and GPS. Over the next several years, we added additional capabilities within those product lines and additional served markets with the acquisition of certain assets from Bluewave Antenna Systems, Ltd ( Bluewave ) in 2008, and the acquisitions of Wi-Sys Communications, Inc ( Wi-Sys ) in 2009, and Sparco Technologies, Inc. ( Sparco ) in 2010, and the acquisition of certain assets of TelWorx Communications LLC, TelWorx U.K. Limited, TowerWorx LLC, and TowerWorx International, Inc. ( collectively TelWorx ), in July 2012.

As discussed in the previous paragraph, PCTEL, through its wholly-owned subsidiary PCTelWorx, Inc. ( PCTelWorx ), completed the acquisition of substantially all of the assets and assumption of certain specified liabilities of TelWorx pursuant to an Asset Purchase Agreement dated as of July 9, 2012 among PCTEL, PCTelWorx, and Tim and Brenda Scronce, the principal owners of TelWorx. See Note 4 of the consolidated financial statements for more information on the acquisition of the assets of TelWorx.

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 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 and Engineering Services**

PCTEL is a leading supplier of high-speed, multi-standard, demodulating receivers and test and measurement solutions to the wireless industry worldwide. Our SeeGull® scanning receivers, receiver-based products and CLARIFY® interference management solutions are used to measure, monitor and optimize cellular networks. PCTEL's network engineering services ( NES ) Group provides value-added analysis of measured data collected during the optimization process. Revenue growth for these products and services is driven by the deployment of products based on 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. The engineering services are sold primarily to network infrastructure providers and cellular carriers.

We established our scanning receiver product portfolio in 2003 with the acquisition of certain assets of Dynamic Telecommunications, Inc. ( DTI ). In 2009, we acquired the scanning receiver business from Ascom Network Testing, Inc. ( Ascom ) as well as the exclusive distribution rights and patented technology for Wider Network LLC ( Wider ) network interference products. On October 25, 2011, we purchased certain assets from Envision Wireless Inc. ( Envision ), an engineering services business based in Melbourne, Florida. We paid \$1.5 million to acquire this network engineering service ( NES ) business including customer relationships, accounts receivable and fixed assets. The NES business focuses on the radio frequency ( RF ) issues pertaining to in-building coverage and capacity and its target market is relevant to our antenna and scanning receiver businesses. NES provides value-added analysis of collected data to public cellular carriers, network infrastructure providers, and real estate companies.

Competitors for these products are OEMs such as JDS Uniphase, Rohde and Schwarz, Anritsu, and Berkley Varitronics.

PCTEL 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.

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### **Secure Applications**

On January 5, 2011, we formed PCTEL Secure LLC ( PCTEL Secure ), a joint venture limited liability company with Eclipse Design Technologies, Inc. PCTEL Secure designs Android-based, secure communication products. PCTEL contributed \$2.5 million in cash in return for 51% ownership of the joint venture and Eclipse contributed \$2.4 million of intangible assets in return for 49% ownership of the joint venture. In May 2012, the Company paid Eclipse \$0.9 million for an additional 19% membership interest, and in July 2012 the Company paid Eclipse \$0.8 million for the remaining 30% membership interest.

### **Segment reporting**

During 2011 and 2012, PCTEL operated in two segments for reporting purposes. Beginning with the formation of PCTEL Secure in January 2011, we reported the financial results of PCTEL Secure as a separate operating segment. For PCTEL Secure, we make decisions regarding allocation of resources separate from the rest of the Company. Our chief operating decision maker uses the profit and loss results and the assets in deciding how to allocate resources and assess performance between the segments.

### **Major Customers**

There were no customers that accounted for 10% or greater of revenues during the years ended December 31, 2012 and December 31, 2011, respectively. One customer accounted for 10% of our total revenues during the year ended December 31, 2010.

### **International Activities**

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

<b>Region</b>	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Europe, Middle East, & Africa	13%	20%	24%
Asia Pacific	10%	11%	11%
Other Americas	7%	8%	9%
Total Foreign sales	30%	39%	44%
Total Domestic sales	70%	61%	56%
	100%	100%	100%

### **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, consultants and market research organizations to track changes in the marketplace, including emerging industry standards.





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Research and development expenses include costs for hardware and related software development, prototyping, certification and pre-production costs. We spent approximately \$11.2 million, \$11.9 million, and \$11.8 million in the fiscal years 2012, 2011, and 2010, 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 \$11.4 million, \$10.5 million, and \$10.1 million in fiscal years 2012, 2011, and 2010, respectively, for sales and marketing support.

### **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 contract manufacturers are unable to provide satisfactory services for us, other contract manufacturers are available, although engaging a new contract manufacturer could cause unwanted delays and additional costs. We have no guaranteed supply contracts or long-term agreements with any of our suppliers.

### **Employees**

As of December 31, 2012, we had 467 full-time equivalent employees, consisting of 302 in operations, 70 in sales and marketing, 58 in research and development, and 37 in general and administrative functions. Total full-time equivalent employees in operations were 386 and 345 at December 31, 2011 and 2010, respectively. Headcount increased by 81 at December 31, 2012 from December 31, 2011 due to the hiring of 48 people associated with the Telworx business and due to an increase in employees for antenna operations in Tianjin, China. 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*. The information within, or that can be accessed through our website, is not part of this Annual Report on Form 10-K. 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*.

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**Item 1A: Risk Factors**

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

**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 and government 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.

**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

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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.

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**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,

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.

Note that we did experience a problem with internal controls and financial reporting of our TelWorx acquisition as described in the next Risk Factor.

### **We may experience problems with internal controls and financial reporting for new acquisitions.**

The ineffectiveness of our controls and procedures over our recent TelWorx acquisition resulted in a material weakness in internal control over financial reporting, as described in this Annual Report, included in Item 9A, Controls and Procedures. The material weakness related to financial reporting irregularities instigated by senior management at the acquired entity. The Company had not integrated this entity into its control environment or subjected it to internal control testing. There is the potential that we may encounter similar problems on future acquisitions or we may be unable to effectively implement appropriate remedial measures in a timely manner. The continuation of a material weakness, or the discovery of additional material weaknesses, in our internal control over financial reporting in future acquisitions and any delay in the implementation of remedial measures outlined in Item 9A may negatively impact our operations.

### **Accounting irregularities detected with respect to the financial statements of the TelWorx entities may result in our incurring significant professional fees and expenses and divert management time and resources.**

As further described under Item 3 Legal Proceedings of this Form 10-K, following a self-report by us, the SEC commenced an investigation arising out of the accounting irregularities we detected in the financial statements of the TelWorx entities. We have incurred professional fees and other costs in investigating these irregularities and in responding to the SEC's related inquiries and expect to continue to incur professional

fees and other costs in connection with our and the SEC's ongoing investigation, until resolved.

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### **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 significantly 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.

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**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, 2012, we employed a total of 58 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 operations 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.

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### **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 currently have 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.



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**Changes in laws or regulations, in particular future Federal Communications Commission ( 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 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 \$5.70 to a high of \$7.59 during 2012. 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,

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,

announcements of technological innovations,

our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments,

conditions or trends in our industry,

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

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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:

Location	Square feet	Owned/Leased	Lease Term		Purpose
			Beginning	Ending	
Bloomington, Illinois	75,517	Owned	N/A	N/A	antennas products & corporate offices
Lexington, North Carolina	36,000	Leased	2012	2017	distribution & sales office for TelWorx
Tianjin, China	22,120	Leased	2012	2017	antenna assembly
Germantown, Maryland	20,704	Leased	2012	2020	scanning receiver products
Pryor, Oklahoma	5,500	Leased	2012	2013	tower assembly
Beijing, China	5,393	Leased	2010	2013	research and development
San Antonio, Texas	4,159	Leased	2011	2016	sales office
Melbourne, Florida	1,624	Leased	2011	2013	engineering services

**Table of Contents****Facility changes**

In June 2012, we extended the lease for our Germantown, Maryland facility through 2020. The total lease obligation pursuant to the amendment for the Germantown, Maryland lease was \$3.3 million.

In March 2012, we entered into a new five-year lease for our Tianjin, China operations. Under the new lease, we expanded the leased space to approximately 22,000 square feet. The additional space meets the needs of our expanded antenna operations in Tianjin.

With the acquisition of the TelWorx business, we entered into a five-year lease for a warehouse and office facility in Lexington, North Carolina and a one-year lease for an assembly facility in Pryor, Oklahoma. The total lease obligation pursuant to these leases for the TelWorx business was \$1.0 million. As part of an amendment to the asset purchase agreement for TelWorx, the sellers granted us an option to terminate the current facility lease in Lexington, North Carolina with Scronce Real Estate, LLC (which is controlled by sellers) upon 180 days written notice. See Note 17 in the notes to the consolidated financial statements for more information on the amendment related to the TelWorx acquisition.

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***TelWorx acquisition*

As further described under Note 17 of the consolidated financial statements, following the closing of the Telworx acquisition, we became aware of accounting irregularities with respect to the acquired Telworx business and the we self-reported to the SEC. Since our self-report, the SEC has notified us that the SEC has commenced a formal investigation into the TelWorx matters. We have been cooperating fully with the SEC.

**Item 4: Mine Safety Disclosures**

Not applicable.

**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.

	High	Low
<b>Fiscal 2012:</b>		
Fourth Quarter	\$ 7.20	\$ 5.92
Third Quarter	\$ 7.31	\$ 5.70
Second Quarter	\$ 6.98	\$ 5.95
First Quarter	\$ 7.59	\$ 6.45
	High	Low
<b>Fiscal 2011:</b>		
Fourth Quarter	\$ 7.30	\$ 6.00
Third Quarter	\$ 6.59	\$ 5.81
Second Quarter	\$ 8.00	\$ 5.68
First Quarter	\$ 7.83	\$ 6.05



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The closing sale price of our common stock as reported on the NASDAQ Global Market on March 26, 2013 was \$6.89 per share. As of that date there were 41 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**

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, 2007 and ending December 31, 2012. 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.

## **Dividends**

In October 2011, our Board of Directors approved the initiation of a quarterly cash dividend to shareholders. We paid the initial cash dividend of \$0.03 per share on November 15, 2011. During 2012, we paid a cash dividend of \$0.03 per share on February 15, 2012, May 15, 2012, August 15, 2012 and November 15, 2012, respectively.

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We raised the dividend to \$.035 per share effective for the quarterly cash dividend to shareholders paid on February 15, 2013.

**Sales of Unregistered Equity Securities**

None.

**Issuer Purchases of Equity Securities**

All share repurchase programs are authorized by our Board of Directors and are announced publicly. During the year ended December 31, 2012, no shares were repurchased of our common stock. On March 18, 2013, our Board of Directors approved a share repurchase program of \$5.0 million.

**Table of Contents****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, 2012, 2011, and 2010 and the balance sheet data as of December 31, 2012 and 2011 are derived from audited financial statements included elsewhere in this Annual Report on Form 10-K. The statement of operations data for the years ended December 31, 2009 and 2008 and the balance sheet data as of December 31, 2010, 2009, and 2008 are derived from audited financial statements not included in this Annual Report on Form 10-K.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenues	\$ 88,849	\$ 76,844	\$ 69,254	\$ 56,002	\$ 76,927
Cost of revenues	53,029	40,982	38,142	29,883	40,390
Gross profit	35,820	35,862	31,112	26,119	36,537
<b>Operating expenses:</b>					
Research and development	11,224	11,912	11,777	10,723	9,976
Sales and marketing	11,357	10,492	10,095	7,725	10,515
General and administrative	11,000	10,799	10,224	9,674	10,736
Amortization of intangible assets	3,170	2,795	2,934	2,225	2,062
Restructuring charges	157	117	931	493	353
Impairment of goodwill and intangible assets	13,601	0	1,084	1,485	16,735
Loss on sale of product lines and related note receivable	0	0	0	379	882
Royalties	0	0	0	(400)	(800)
Total operating expenses	50,509	36,115	37,045	32,304	50,459
Operating loss from continuing operations	(14,689)	(253)	(5,933)	(6,185)	(13,922)
Other income, net	141	358	602	919	85
Income (loss) before income taxes	(14,548)	105	(5,331)	(5,266)	(13,837)
Expense (benefit) for income taxes	(5,250)	216	(1,875)	(783)	(14,996)
Net income (loss) from continuing operations	(9,298)	(111)	(3,456)	(4,483)	1,159
Less: Net loss attributable to noncontrolling interests	(687)	(1,158)	0	0	0
Net income (loss) attributable to PCTEL, Inc.	(8,611)	1,047	(3,456)	(4,483)	1,159
Less: adjustments to redemption value of noncontrolling interests	(648)	(863)	0	0	0
Net income (loss) available to common shareholders from continuing operations	(9,259)	184	(3,456)	(4,483)	1,159
Net income from discontinued operations, net of tax benefit for income taxes	0	0	0	0	37,138
Net income (loss) available to common shareholders	(\$ 9,259)	\$ 184	(\$ 3,456)	(\$ 4,483)	\$ 38,297
<b>Basic earnings (loss) per share available to common shareholders:</b>					
Net income (loss) from continuing operations	(\$ 0.53)	\$ 0.01	(\$ 0.20)	(\$ 0.26)	\$ 0.06



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Net income (loss) from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.94
Net income (loss)	(\$ 0.53)	\$ 0.01	(\$ 0.20)	(\$ 0.26)	\$ 2.00
Diluted earnings (loss) per share:					
Net income (loss) from continuing operations	(\$ 0.53)	\$ 0.01	(\$ 0.20)	(\$ 0.26)	\$ 0.06
Net income (loss) from discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.93
Net income (loss)	(\$ 0.53)	\$ 0.01	(\$ 0.20)	(\$ 0.26)	\$ 1.99
Dividends per common share	\$ 0.12	\$ 0.03	\$ 0.00	\$ 0.00	\$ 0.50
Shares used in computing basic earnings (loss) per share	17,402	17,186	17,408	17,542	19,158
Shares used in computing diluted earnings (loss) per share	17,402	17,739	17,408	17,542	19,249
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$ 51,155	\$ 61,628	\$ 61,144	\$ 63,439	\$ 62,601
Working capital	74,399	80,311	78,860	78,889	82,046
Total assets	128,570	133,464	130,565	129,218	135,506
Total stockholders' equity	108,145	116,315	116,655	121,068	125,318

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

The following commentary presents a discussion and analysis of the Company's financial condition and results of operations by its management. The review highlights the principal factors affecting earnings and the significant changes in balance sheet items for the years 2012, 2011 and 2010. Financial information for prior years is presented when appropriate. The objective of this financial review is to enhance investor's understanding of the accompanying tables and charts, the consolidated financial statements, notes to financial statements, and financial statistics appearing elsewhere in this Annual Report on Form 10-K. Where applicable, this discussion also reflects management's insights of known events and trends that have or may reasonably be expected to have a material effect on the Company's operations and financial condition.

Our 2012 revenues increased by \$12.0 million, or 15.6%, to \$88.8 million compared to 2011, due to the acquisition of TelWorx in July 2012 and Envision in October 2011, and due to higher revenues from antenna products. We recorded an operating loss of \$14.7 million in 2012, which included \$12.5 million goodwill impairment related to the TelWorx acquisition and \$1.1 million impairment for the intangible assets of PCTEL Secure. We recorded a net loss of \$9.3 million in 2012 compared to a net loss of \$0.1 million for 2011.

**Introduction**

PCTEL is a global leader in propagation and optimization solutions for the wireless industry. We design, develop, and distribute a wide range of antennas, site solutions, scanning receivers and engineered services, for both public and private networks. Additionally, we have licensed our intellectual property, principally related to a discontinued modem business, to semiconductor, PC manufacturers, modem suppliers, and others.

The vertical markets into which the antenna and site solutions are sold include SCADA, health care, energy, smart grid, precision agriculture, indoor wireless, telemetry, offloading, and wireless backhaul. Growth for antenna and site solutions is primarily driven by the increased use of wireless communications in these vertical markets. Revenue growth for antenna products and site solutions 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 receivers and engineering services 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 primarily for defensive purposes and are not part of an active licensing program.

We operate in two segments for reporting purposes. Beginning with the formation of PCTEL Secure in January 2011, we report the financial results of PCTEL Secure as a separate operating segment. Because PCTEL Secure is a joint venture, we make decisions regarding allocation of resources separate from the rest of the Company. Our chief operating decision maker uses the profit and loss results and the assets in deciding how to allocate resources and assess performance between the segments. We did not report segment information for PCTEL Secure in this section because PCTEL Secure was in the development stage during 2011 and 2012.

**Results of Operations**

*Years ended December 31, 2012, 2011, and 2010 (All amounts in tables, other than percentages, are in thousands)*

**REVENUES**

	2012	2011	2010
Revenues	\$ 88,849	\$ 76,844	\$ 69,254
Percent change from prior year	15.6%	11.0%	23.7%

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Revenues were approximately \$88.8 million for the year ended December 31, 2012, an increase of 15.6% from the prior year. In the year ended December 31, 2012 versus the prior year, approximately 14% of the increase in revenues was attributable to revenues from the businesses we acquired from Envision in October 2011 and TelWorx in July 2012 and approximately 9% was attributable to increased antenna product revenues, offsetting approximately 7% from lower scanning receiver revenues.

Revenues were approximately \$76.8 million for the year ended December 31, 2011, an increase of 11.0% from the prior year. In the year ended December 31, 2011 versus the prior year, approximately 6% of the increase in revenues was attributable to antenna products and approximately 5% of the increase in revenues was attributable to scanning products. The increase in antenna product revenues in 2011 compared to 2010 reflects continued success in penetrating our targeted vertical markets and higher GPS antenna sales. The increase in revenues of our scanning products in 2011 was primarily due the launch of our new MX scanning receiver and the LTE rollout in the U.S.

**GROSS PROFIT**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Gross profit	\$ 35,820	\$ 35,862	\$ 31,112
Percentage of revenues	40.3%	46.7%	44.9%
Percent change from prior year	(6.4%)	1.8%	(1.7%)

Gross profit as a percentage of total revenue was 40.3% in 2012 compared to 46.7% in 2011 and 44.9% in 2010. The margin percentage decrease is related to a higher volume of antenna products relative to scanner products and the addition of the lower margin products from TelWorx. The gross margin degradation is because of unfavorable product mix (6.8%), offsetting higher product margin of 0.4% for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Gross profit as a percentage of total revenue was 46.7% in 2011 compared to 44.9% in 2010 and 46.6% in 2009. The margin percentage increase was related to favorable product mix and increased revenues during 2011 for both antenna products and scanning products. Scanning product revenue, with higher gross margins relative to antenna products, increased faster than antenna revenue. Higher product margin for both antenna and scanning products contributed 0.9% of the margin percentage increase and product mix contributed 0.8% of the margin percentage increase for the year ended December 31, 2011 compared to the year ended December 31, 2010.

**RESEARCH AND DEVELOPMENT**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Research and development	\$ 11,224	\$ 11,912	\$ 11,777
Percentage of revenues	12.6%	15.5%	17.0%
Percent change from prior year	(5.8%)	1.1%	9.8%

Research and development expenses decreased approximately \$0.7 million from 2011 to 2012. In 2012, our expenses decreased by approximately \$1.0 million for scanning receivers, offsetting an increase of \$0.3 million for PCTEL Secure. Expenses decreased for scanner products because our MX scanning receiver was completed in 2011. For PCTEL Secure, we incurred expenses for the completion of our prototype.

Research and development expenses increased \$0.1 million from 2010 to 2011. In 2011, we incurred \$1.6 million of expense related to PCTEL Secure, and research and development expenses other than for PCTEL Secure decreased by \$1.5 million primarily due to the completion of several projects in scanner receiver development. Expenses increased even though our headcount declined from December 31, 2010 to December 31, 2011 primarily because the headcount reductions occurred at the end of the third quarter 2011.

We had 58, 56, and 65 full-time equivalent employees in research and development at December 31, 2012, 2011, and 2010, respectively.

**Table of Contents****SALES AND MARKETING**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Sales and marketing	\$ 11,357	\$ 10,492	\$ 10,095
Percentage of revenues	12.8%	13.7%	14.6%
Percent change from prior year	8.2%	3.9%	30.7%

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 \$0.9 million from 2011 to 2012. The increase was primarily due to the addition of \$1.0 million of sales expenses associated with the business acquired from the TelWorx acquisition.

Sales and marketing expenses increased \$0.4 million from 2010 to 2011. The expense increase was due to our investment in antenna vertical markets, sales and marketing expenses for PCTEL Secure, and due to higher commissions and variable compensation related to the increased revenues.

We had 70, 50, and 48 full-time equivalent employees in sales and marketing at December 31, 2012, 2011, and 2010, respectively.

**GENERAL AND ADMINISTRATIVE**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
General and administrative	\$ 11,000	\$ 10,799	\$ 10,224
Percentage of revenues	12.4%	14.1%	14.8%
Percent change from prior year	1.9%	5.6%	5.7%

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 \$0.2 million from 2011 to 2012. The increase was due to \$0.6 million additional expenses associated with the implementation of our Enterprise Resource Planning ( ERP ) system and \$0.5 million of expenses for the TelWorx business, offsetting the reduction of approximately \$0.9 million related to incentive plans. We incurred \$0.5 million of general and administrative expense for the business acquired from TelWorx.

General and administrative expenses increased \$0.6 million from 2010 to 2011. The expense increase is primarily due to certain expenses related to the implementation of our new Enterprise Resource Planning ( ERP ) system. The project for the ERP system was completed during 2012.

We had 37, 32, and 31 full-time equivalent employees in general and administrative functions at December 31, 2012, 2011, 2010, respectively.

**AMORTIZATION OF INTANGIBLE ASSETS**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Amortization of intangible assets	\$ 3,170	\$ 2,795	\$ 2,934
Percentage of revenues	3.6%	3.6%	4.2%

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Amortization expense increased approximately \$0.4 million in 2012 compared to 2011 due to \$0.3 million additional amortization for in-process research and development for PCTEL Secure, \$0.2 million for amortization of intangible assets acquired from TelWorx in July 2012, \$0.1 million related to a full year of amortization for the acquisition of assets from Envision in October 2011, offsetting \$0.2 million lower amortization because certain intangible assets for antenna product acquisitions became fully amortized in 2011.

Amortization expense decreased approximately \$0.1 million in 2011 compared to 2010 because intangible assets acquired from Andrew were fully amortized in 2010 and due to the fact that certain intangible assets related to the Wider settlement and the acquisition of products from Ascom were impaired during the fourth quarter 2010. These decreases in amortization were partially offset by additional amortization of \$0.6 million related to the intangible assets contributed by Eclipse for PCTEL Secure and the intangible assets acquired from Envision.

**RESTRUCTURING CHARGES**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Restructuring charges	\$ 157	\$ 117	\$ 931
Percentage of revenues	0.2%	0.2%	1.3%

The 2012 restructuring expense relates to reduction in headcount in our Bloomingdale facility. During the third quarter 2012, we eliminated twelve positions in our manufacturing organization. The restructuring expense of \$0.2 million consisted of severance and payroll related benefits.

The 2011 restructuring expense related to reduction in headcount in our Germantown engineering organization. During 2011, we eliminated six positions due to the completion of several projects for scanning receivers. The restructuring expense of \$0.1 million consisted of severance and payroll related benefits.

The 2010 restructuring expense consisted of \$0.8 million related to a 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 functional organizational structure. A restructuring plan was established to reduce the overhead and operating costs associated with operating distinct groups. We incurred restructuring expense of \$0.8 million for severance, payroll related benefits and placement services related to the elimination of twelve positions. During the third quarter 2010, we shut down our Sparco operations other than our sales office in San Antonio, Texas and integrated these manufacturing and distribution activities in our Bloomingdale, Illinois facility. We incurred restructuring expense of \$0.1 million for severance and payroll benefits for the elimination of five positions, and other relocation costs during 2010.

**IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Impairment of goodwill and intangible assets	\$ 13,601	\$ 0	\$ 1,084
Percentage of revenues	15.3%	0.0%	1.6%

In 2012, we recorded a goodwill impairment of \$12.5 million related to our TelWorx acquisition based on the results from our annual test of goodwill impairment at October 31, 2012. This amount represented the total goodwill associated with the acquisition. The projected revenue, gross margin, and future cash flows of the business were significantly lower at the annual goodwill test date of October 31, 2012 than at the acquisition date of July 9, 2012. Additionally in December 2012, we recorded an intangible asset impairment of \$1.1 million related to our PCTEL Secure operating segment. We have been unsuccessful to date in bringing the segment's product to market. The projected future undiscounted cash flows were in a range at or below zero, which is not sufficient to support the carrying values. The impairment represents all of the remaining intangible assets of the operating segment.

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In December 2010, we recorded an impairment of 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 triggering events 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.

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

**OTHER INCOME, NET**

	2012	2011	2010
Other income, net	\$ 141	\$ 358	\$ 602
Percentage of revenues	0.2%	0.5%	0.9%

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, 2012, other income, net consisted of approximately \$0.1 million of interest income, approximately \$50 of miscellaneous income, and foreign exchange losses of \$31. The miscellaneous income is primarily related to share-based payments for key contributors of PCTEL Secure. Since we are a noncontributing investor to the share-based payment arrangements, we recognized income equal to the amount that its interest in the subsidiary's equity increased as a result of the disproportionate funding of the share-based compensation costs.

For the year ended December 31, 2011, other income, net consisted of approximately \$0.2 million of interest income, approximately \$0.2 million of miscellaneous income, and foreign exchange losses of \$33. The miscellaneous income is primarily related to share-based payments for key contributors of PCTEL Secure.

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 contingent consideration related to revenue targets for the years ended December 31, 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.

**EXPENSE (BENEFIT) FOR INCOME TAXES**

	2012	2011	2010
(Benefit) expense for income taxes	(\$ 5,250)	\$ 216	(\$ 1,875)
Effective tax rate	36.1%	205.7%	35.2%

The effective tax rate differed from the statutory Federal rate of 34% by approximately 2.1% during 2012 due to state income taxes and the noncontrolling interest of PCTEL Secure. The effective tax rate differed from the statutory Federal rate of 34% by approximately 171% during 2011 primarily because of the noncontrolling interest of PCTEL Secure. In addition, we recorded income tax benefits related to state rate changes on our deferred tax assets and the release of our valuation allowance on our deferred tax assets subject to Chinese income taxes. The effective tax rate was approximately equal to the statutory Federal rate of 35% during 2010.

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At December 31, 2012, we had net deferred tax assets of \$15.5 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, 2012 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 LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS**

	2012	2011	2010
Net loss attributable to noncontrolling interests	(\$ 687)	(\$ 1,158)	\$ 0

The net loss attributable to noncontrolling interests represents 49% of the net loss of PCTEL Secure for the year ended December 31, 2011 and the pro-rata percentage ownership of PCTEL Secure during the year ended December 31, 2012. For all of 2011 and through May 2012, we owned 51% of PCTEL Secure. On May 29, 2012, we purchased an additional 19% membership interest and on July 2, 2012 we purchased the remaining 30% membership in PCTEL Secure from Eclipse.

**Liquidity and Capital Resources**

	Years Ended December 31,		
	2012	2011	2010
Net loss	(\$ 9,298)	(\$ 111)	(\$ 3,456)
Charges for depreciation, amortization, stock-based compensation, and other non-cash items	15,613	7,687	9,718
Changes in operating assets and liabilities	(1,269)	(705)	(2,910)
Net cash provided by operating activities	5,046	6,871	3,352
Net cash used in investing activities	(5,321)	(8,958)	(10,465)
Net cash used in financing activities	(1,624)	(2,518)	(4,463)
Cash and cash equivalents at the end of the year	\$ 17,559	\$ 19,418	\$ 23,998
Short-term investments at the end of the year	33,596	42,210	37,146
Long-term investments at the end of the year	0	7,177	9,802
Working capital at the end of the year	\$ 74,399	\$ 80,311	\$ 78,860

**Liquidity and Capital Resources Overview**

At December 31, 2012, our cash, cash equivalents, and investments were approximately \$51.2 million and we had working capital of approximately \$74.4 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, implementation of a new ERP system 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.

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. Our capital expenditures during 2012 were approximately 4% of revenues because we spent \$1.7 million in 2012 related to the implementation of a new ERP system. Our capital expenditures during 2011 were approximately 6% of revenues

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because we spent \$2.8 million in 2011 related to the implementation of a new ERP system. We historically have significant transfers between investments and cash as we rotate our 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 \$5.0 million of funds from operating activities during the year ended December 31, 2012. We generated \$6.3 million of funds from our income statement and used \$1.3 million of funds from changes in the balance sheet. Within the balance sheet, inventories increased by \$2.4 million because of purchases to meet higher revenues in 2012 and because our supply chain expanded with more of our production in China. Our accounts receivable increased by \$2.9 million due to increased revenues in the fourth quarter 2012 compared to the prior year fourth quarter. Our prepayments were lower by \$0.9 million during 2012 primarily because we received a federal income tax refund of \$1.3 million. The increase in accounts payable and accrued liabilities of \$3.1 million was due to the higher inventory purchases in 2012 compared to 2011.

We generated \$6.9 million of funds from operating activities for the year ended December 31, 2011. We generated \$7.6 million of funds from the income statement and used \$0.7 million of funds from changes in the balance sheet. Within the balance sheet, inventories increased by \$3.1 million due to the purchase of inventory necessary during the implementation of sourcing initiatives and also because more production was being sourced in-house rather than from contract manufacturers. A reduction of prepayments and other receivables provided \$1.5 million in cash during 2011 primarily because we received a federal income tax refund of \$1.6 million. The positive cash flow impact from the increase in accounts payable of \$1.4 million was due to higher inventory purchases in 2011 compared to 2010.

We generated \$3.4 million of funds from operating activities for the year ended December 31, 2010. We generated \$6.3 million of funds from the income statement and used \$2.9 million of funds from changes in the balance sheet. 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.

**Investing Activities:**

We used \$5.3 million of cash during the year ended December 31, 2012 for investing activities. During the year ended December 31, 2012, we used \$16.0 million for the acquisition of assets from TelWorx and \$1.7 million to purchase the remaining interest in PCTEL Secure. We used \$3.4 million for capital expenditures which



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included \$1.7 million for the implementation of a new ERP system. The new system was completed in August 2012 and standardizes and upgrades our business information systems. Our net cash provided by investments in municipal bonds, U.S. Government Agency bonds, and corporate bonds was \$15.8 million during the year ended December 31, 2012 as redemptions and maturities of our investments provided \$77.7 million but we rotated \$61.9 million of cash into new short and long-term investments.

Our investing activities used \$9.0 million of cash during the year ended December 31, 2011. For the year ended December 31, 2011, our capital expenditures were \$4.9 million which included \$2.8 million for the implementation of a new ERP system. We spent approximately \$3.4 million on the ERP project in 2011, consisting of \$2.8 million in capital expenditures and \$0.6 million in operating expenses. Our net cash used for investments in municipal bonds, U.S. Government Agency bonds, and corporate bonds was \$2.4 million during the year ended December 31, 2011 as redemptions and maturities of our investments provided \$55.6 million but we rotated \$58.0 million of cash into new short and long-term investments. In October 2011, we used \$1.5 million for the acquisition of assets from Envision.

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. Our net cash used for investments in municipal bonds, U.S. Government Agency bonds, and corporate bonds was \$6.9 million during the year ended December 31, 2010 as redemptions and maturities of our investments provided \$59.1 million of cash, but we rotated \$66.0 million of cash into new short and long-term investments. 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 was below the low end of our historical range.

**Financing Activities:**

Our financing activities used \$1.6 million in cash during the year ended December 31, 2012. We used \$2.2 million for quarterly cash dividends paid during 2012 and we received \$0.6 million from shares purchased through the ESPP during 2012.

Our financing activities used \$2.5 million in cash during the year ended December 31, 2011. We used \$2.6 million to repurchase our common stock under share repurchase programs and we used \$0.5 million for a cash dividend paid in November 2011. We received \$0.6 million from shares purchased through the ESPP.

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.

**Contractual Obligations and Commercial Commitments**

The following summarizes our contractual obligations at December 31, 2012 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):

	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Operating leases:					
Facility(a)	\$ 4,777	\$ 839	\$ 2,289	\$ 1,077	\$ 572
Equipment(b)	\$ 89	\$ 58	\$ 31	\$ 0	\$ 0
Purchase obligations(c)	\$ 9,870	\$ 9,870	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 14,736</b>	<b>\$ 10,767</b>	<b>\$ 2,320</b>	<b>\$ 1,077</b>	<b>\$ 572</b>

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- (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 \$1.4 million at December 31, 2012. 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. We recognize revenue for our network engineering services when our engineering reports are completed and issued to the customer.

**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. We believe the accounting estimate related to excess and obsolete inventory is a critical accounting estimate because it requires us to make assumptions about future sales volumes and product mix, both of which are highly uncertain. Changes in these estimates can have a material impact on our financial statements.

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**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 accounting estimate related to warranty costs is a critical accounting estimate because it requires us to make assumptions about matters that are highly uncertain, including future rates of product failure and repair costs. Changes in warranty reserves could be material to our financial statements.

**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 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

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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.

**Impairment Reviews of Goodwill** - We perform an annual impairment test of goodwill as of 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 indicate that an impairment loss may have been incurred. In performing our annual impairment test, we first perform a qualitative assessment to determine whether it is more likely that not that the fair value of a reporting unit is less than its carrying value, including goodwill. If our qualitative assessment is indicative of possible impairment, then a two-step quantitative fair value assessment is performed at the reporting unit level. In the first step, the fair value of each reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, then goodwill is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. The implied fair value of goodwill is then compared against the carrying value of goodwill to determine the amount of impairment.

The process of evaluating the potential impairment of goodwill is subjective because it requires the use of estimates and assumptions in determining a reporting unit's fair value. We calculate the fair value of each reporting unit by using a blended analysis of the present value of future discounted cash flows and the market approach of valuation. The discounted cash flow method requires us to use estimates and judgments about the future cash flows of the reporting units. Although we base cash flow forecasts on assumptions that are consistent with plans and estimates we use to manage the underlying reporting units, there is significant judgment in determining the cash flows attributable to these reporting units, including markets and market share, sales volumes and mix, research and development expenses, tax rates, capital spending, discount rate and working capital changes. Cash flow forecasts are based on reporting unit operating plans for the early years and business projections in later years. The market approach is based on a comparison of the Company to comparable publicly traded firms in similar lines of business. 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 the accounting estimate related to the 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 reporting units. Changes in these estimates can have a material impact on our financial statements.

While the use of historical results and future projections can result in different valuations for a business, 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.

**Impairment Reviews of Intangible Assets** - We evaluate the carrying value of intangible assets and other long-lived assets for impairment whenever indicators of impairment exist. We test finite-lived intangible assets for recoverability using pretax undiscounted cash flows. Although we base cash flow forecasts on assumptions that are consistent with plans and estimates we use to manage the underlying operating segments, there is significant judgment in determining the cash flows attributable to these operating segments, including markets and market share, sales volumes and mix, research and development expenses, capital spending and working capital changes. Cash flow forecasts are based on operating plans and business projections. We compare the pretax undiscounted cash flows to the carrying value of the asset group. If the carrying value exceeds the sum of the undiscounted cash flows of the asset group, an impairment charge must be recognized in the financial statements.

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We believe the accounting estimate related to the valuation of intangible assets is a critical accounting estimate because it requires us to make assumptions about future sales prices and volumes for products that involve new technologies and applications where customer acceptance of new products or timely introduction of new technologies into their networks are uncertain. The recognition of impairment could be material to our financial statements.

### **Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2013-02, Comprehensive Income (Topic 220)-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in the update require an entity to report the effect of significant respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference other disclosures. The amendments in this update are effective prospectively for reporting periods after December 15, 2012. The adoption of this update is not expected to have a material effect on our financial position, results of operations or cash flows.

### **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, 2012. 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, 2012. 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 \$0.8 million of cash in foreign bank accounts at December 31, 2012. As of December 31, 2012, we had no intention of repatriating the cash in our foreign bank accounts to the U.S. If we decide to repatriate the

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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. No customer's accounts receivable balance represented 10% or greater of gross accounts receivables at December 31, 2012 or December 31, 2011. Our allowances for potential credit losses have historically been adequate compared to actual losses. No customers represented 10% of our revenues for the years ended December 31, 2012 or December 31, 2011 and one represented 10% of our revenues for the year ended December 31, 2010.

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**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 the internal control over financial reporting of PCTEL, Inc. (a Delaware corporation) and subsidiaries (the Company) as of December 31, 2012, 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 (Management's Report). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. Our audit of the Company's internal control over financial reporting does not include the internal control over financial reporting of PCTelWorx, Inc., a wholly-owned subsidiary, whose financial statements reflect total assets and revenues constituting 5 and 9 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2012. As indicated in Management's Report, PCTelWorx, Inc. was acquired during 2012, and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded a full assessment of internal control over financial reporting of PCTelWorx, Inc. because the Company did not have the practical ability to perform all of the necessary procedures to fully assess the internal control over financial reporting of PCTelWorx, Inc.

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.

As noted above, our audit of the Company's internal control over financial reporting did not include PCTelWorx, Inc., however, management has identified and included in management's assessment a material weakness in the Company's internal control over financial reporting related to its acquired PCTelWorx, Inc. subsidiary. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in the Company's internal control over financial reporting relates to financial reporting irregularities directed by senior management of PCTelWorx, Inc. that were not detected by the Company's internal controls in a timely manner.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.



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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2012. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 consolidated financial statements, and this report does not affect our report dated April 2, 2013, which expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Chicago, Illinois

April 2, 2013

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**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, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. 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 statement 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 audit 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 present fairly, in all material respects, the financial position of PCTEL, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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), the Company's internal control over financial reporting as of December 31, 2012, 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 April 2, 2013 expressed an adverse opinion.

/s/ GRANT THORNTON LLP

Chicago, Illinois

April 2, 2013

**Table of Contents****PCTEL, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,559	\$ 19,418
Short-term investment securities	33,596	42,210
Accounts receivable, net of allowance for doubtful accounts of \$222 and \$132 at December 31, 2012 and December 31, 2011, respectively	18,586	14,342
Inventories, net	17,573	13,911
Deferred tax assets, net	1,484	896
Prepaid expenses and other assets	2,160	2,277
Total current assets	90,958	93,054
Property and equipment, net	14,777	13,590
Long-term investment securities	0	7,177
Goodwill	161	161
Intangible assets, net	7,004	9,332
Deferred tax assets, net	14,034	8,831
Other noncurrent assets	1,636	1,319
<b>TOTAL ASSETS</b>	<b>\$ 128,570</b>	<b>\$ 133,464</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts Payable	\$ 10,643	\$ 5,651
Accrued Liabilities	5,916	7,092
Total current liabilities	16,559	12,743
Contingent consideration	1,130	0
Other long-term liabilities	2,736	2,144
	3,866	2,144
Total liabilities	20,425	14,887
Redeemable equity	0	1,731
Stockholders' equity:		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 18,514,809 and 18,218,537 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	19	18
Additional paid-in capital	140,388	137,117
Accumulated deficit	(32,410)	(20,941)
Accumulated other comprehensive income	148	121
Total stockholders' equity of PCTEL, Inc.	108,145	116,315
Noncontrolling interest	0	531
Total equity	108,145	116,846
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 128,570</b>	<b>\$ 133,464</b>

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

**Table of Contents****PCTEL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

	Years Ended December 31,		
	2012	2011	2010
<b>REVENUES</b>	\$ 88,849	\$ 76,844	\$ 69,254
<b>COST OF REVENUES</b>	53,029	40,982	38,142
<b>GROSS PROFIT</b>	35,820	35,862	31,112
<b>OPERATING EXPENSES:</b>			
Research and development	11,224	11,912	11,777
Sales and marketing	11,357	10,492	10,095
General and administrative	11,000	10,799	10,224
Amortization of intangible assets	3,170	2,795	2,934
Restructuring charges	157	117	931
Impairment of goodwill and intangible assets	13,601	0	1,084
<b>Total operating expenses</b>	<b>50,509</b>	<b>36,115</b>	<b>37,045</b>
<b>OPERATING LOSS</b>	(14,689)	(253)	(5,933)
Other income, net	141	358	602
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	(14,548)	105	(5,331)
(Benefit) expense for income taxes	(5,250)	216	(1,875)
<b>NET LOSS</b>	(9,298)	(111)	(3,456)
<b>Less: Net loss attributable to noncontrolling interests</b>	(687)	(1,158)	
<b>NET (LOSS) INCOME ATTRIBUTABLE TO PCTEL, INC.</b>	(\$ 8,611)	1,047	(3,456)
<b>Less: adjustments to redemption value of noncontrolling interests</b>	(648)	(863)	0
<b>NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	(\$ 9,259)	\$ 184	(\$ 3,456)
<b>Basic Earnings per Share:</b>			
Net (loss) income available to common shareholders	(\$ 0.53)	\$ 0.01	(\$ 0.20)
<b>Diluted Earnings per Share:</b>			
Net (loss) income available to common shareholders	(\$ 0.53)	\$ 0.01	(\$ 0.20)
Weighted average shares Basic	17,402	17,186	17,408
Weighted average shares Diluted	17,402	17,739	17,408
Cash dividend per share	\$ 0.12	\$ 0.03	\$ 0.00

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

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## PCTEL, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands, except per share data)

	Years Ended December 31,		
	2012	2011	2010
<b>NET LOSS</b>	(\$ 9,298)	(\$ 111)	(\$ 3,456)
<b>OTHER COMPREHENSIVE INCOME:</b>			
Foreign Currency Translation Adjustments	27	60	30
<b>COMPREHENSIVE LOSS</b>	(9,271)	(51)	(3,426)
<b>Comprehensive loss attributable to noncontrolling interests</b>	(687)	(1,158)	0
<b>COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO PCTEL, INC.</b>	<b>(\$ 8,584)</b>	<b>\$ 1,107</b>	<b>(\$ 3,426)</b>

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

**Table of Contents****PCTEL, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands)

	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity of PCTEL, Inc.	Noncontrolling Interest	Total Equity	Redeemable Noncontrolling Interest
BALANCE, JANUARY 1, 2010	\$ 18	\$ 138,141	(\$ 17,122)	\$ 31	\$ 121,068	\$ 0	\$ 121,068	\$ 0
Stock-based compensation	1	4,609	0	0	4,610	0	4,610	0
Issuance of shares for stock purchase and option plans	0	468	0	0	468	0	468	0
Cancellation of shares for payment of withholding tax	0	(887)	0	0	(887)	0	(887)	0
Repurchase of common stock	(1)	(4,931)	0	0	(4,932)	0	(4,932)	0
Tax effect from stock based compensation	0	(246)	0	0	(246)	0	(246)	0
Net loss	0	0	(3,456)	0	(3,456)	0	(3,456)	0
Change in cumulative translation adjustment, net	0	0	0	30	30	0	30	0
BALANCE, DECEMBER 31, 2010	\$ 18	\$ 137,154	(\$ 20,578)	\$ 61	\$ 116,655	\$ 0	\$ 116,655	\$ 0
Stock-based compensation	0	3,243	0	0	3,243	0	3,243	0
Issuance of shares for stock purchase and option plans	0	586	0	0	586	0	586	0
Cancellation of shares for payment of withholding tax	0	(1,255)	0	0	(1,255)	0	(1,255)	0
Repurchase of common stock	0	(2,559)	0	0	(2,559)	0	(2,559)	0
Tax effect from stock based compensation	0	(54)	0	0	(54)	0	(54)	0
Initial capitalization for PCTEL Secure	0	0	0	0	0	1,944	1,944	456
Share-based payments for PCTEL Secure	0	0	0	0	0	96	96	61
Adjustment to temporary equity for PCTEL Secure	0	0	(863)	0	(863)	(800)	(1,663)	1,663
Dividend	0	2	(547)	0	(545)	0	(545)	0
Net income (loss)	0	0	1,047	0	1,047	(709)	338	(449)
Change in cumulative translation adjustment, net	0	0	0	60	60	0	60	0
BALANCE, DECEMBER 31, 2011	\$ 18	\$ 137,117	(\$ 20,941)	\$ 121	\$ 116,315	\$ 531	\$ 116,846	\$ 1,731
Stock-based compensation	1	2,991	0	0	2,992	0	2,992	0
Issuance of shares for stock purchase and option plans	0	578	0	0	578	0	578	0
Cancellation of shares for payment of withholding tax	0	(1,204)	0	0	(1,204)	0	(1,204)	0
Tax effect from stock based compensation	0	6	0	0	6	0	6	0
Share-based payments for PCTEL Secure	0	0	0	0	0	0	0	39

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Adjustment to temporary equity for PCTEL Secure	0	0	(648)	0	(648)	0	(648)	648
Adjustment to tax basis of PCTEL Secure	0	361	0	0	361	0	361	0
Dividend	0	8	(2,210)	0	(2,202)	0	(2,202)	0
Net income (loss)	0	0	(8,611)	0	(8,611)	0	(8,611)	(687)
Purchase of 49% interest in PCTEL Secure	0	531	0	0	531	(531)	0	(1,731)
Change in cumulative translation adjustment, net	0	0	0	27	27	0	27	0
<b>BALANCE, DECEMBER 31, 2012</b>	<b>\$ 19</b>	<b>\$ 140,388</b>	<b>(\$ 32,410)</b>	<b>\$ 148</b>	<b>\$ 108,145</b>	<b>\$ 0</b>	<b>\$ 108,145</b>	<b>\$ 0</b>

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



**Table of Contents****PCTEL, INC.****CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)

	Years Ended December 31,		
	2012	2011	2010
<b>Operating Activities:</b>			
Net loss	(\$ 9,298)	(\$ 111)	(\$ 3,456)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	5,606	5,283	5,212
Impairment charges	13,601	0	1,084
Gain on bargain purchase of acquisition	0	0	(54)
Gain on write-off of acquisition liabilities	0	0	(197)
Stock based compensation	2,992	3,243	4,610
Share based expense	39	157	0
(Gain) loss on disposal/sale of property and equipment	4	22	(22)
Restructuring costs	0	0	324
Payment of withholding tax on stock based compensation	(1,204)	(1,255)	(887)
Deferred tax expense	(5,425)	237	(352)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(2,870)	(152)	(3,940)
Inventories	(2,361)	(3,122)	(2,396)
Prepaid expenses and other assets	863	1,455	(1,567)
Accounts payable	3,850	1,356	1,719
Income taxes payable	72	17	(233)
Accrued liabilities	(804)	164	3,015
Deferred revenue	(19)	(423)	492
Net cash provided by operating activities	5,046	6,871	3,352
<b>Investing Activities:</b>			
Capital expenditures	(3,381)	(4,869)	(1,257)
Proceeds from disposal of property and equipment	0	0	18
Purchase of investments	(61,927)	(58,046)	(65,989)
Redemptions/maturities of short-term investments	77,718	55,607	59,072
Purchase of assets with settlement	0	(200)	(200)
Purchase of assets/businesses, net of cash acquired	(17,731)	(1,450)	(2,109)
Net cash used in investing activities	(5,321)	(8,958)	(10,465)
<b>Financing Activities:</b>			
Proceeds from issuance of common stock	578	586	468
Payments for repurchase of common stock	0	(2,559)	(4,931)
Cash dividend	(2,202)	(545)	0
Net cash used in financing activities	(1,624)	(2,518)	(4,463)
Net decrease in cash and cash equivalents	(1,899)	(4,605)	(11,576)
Effect of exchange rate changes on cash	40	25	31
Cash and cash equivalents, beginning of year	19,418	23,998	35,543
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 17,559</b>	<b>\$ 19,418</b>	<b>\$ 23,998</b>

**Other information:**

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