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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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

For the quarterly period ended September 30, 2017

**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

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**PCTEL, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

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**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)

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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 check mark whether the registrant has submitted electronically and on its corporate Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

|   |                          |  |                                     |
|---|--------------------------|--|-------------------------------------|
| Large accelerated filer                       | <input type="checkbox"/> | Accelerated filer  | <input checked="" type="checkbox"/> |
| Non-accelerated filer                         | <input type="checkbox"/> | Smaller reporting company  | <input type="checkbox"/>            |
| (do not check if a smaller reporting company) |                          |  |                                     |
| Emerging growth company                       | <input type="checkbox"/> | If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act <input type="checkbox"/> |                                     |

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

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

| <u>Title</u>                             | <u>Outstanding</u>                |
|--|-----------------------------------|
| Common Stock, par value \$.001 per share | 17,727,497 as of November 9, 2017 |

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PCTEL, INC.  
Form 10-Q  
For the Quarterly Period Ended September 30, 2017

TABLE OF CONTENTS

|                       |  | <u>Page</u> |
|-----------------------|--|-------------|
| <b><u>PART I</u></b>  | <b><u>FINANCIAL INFORMATION</u></b>  |             |
| Item 1                | <a href="#"><u>Financial Statements (unaudited)</u></a>  | 3           |
|                       | <a href="#"><u>Condensed Consolidated Balance Sheets</u></a>   | 3           |
|                       | <a href="#"><u>Condensed Consolidated Statements of Operations</u></a>                                       | 4           |
|                       | <a href="#"><u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u></a>                      | 5           |
|                       | <a href="#"><u>Condensed Consolidated Statement of Stockholders' Equity</u></a>                              | 6           |
|                       | <a href="#"><u>Condensed Consolidated Statements of Cash Flows</u></a>                                       | 7           |
|                       | <a href="#"><u>Notes to the Condensed Consolidated Financial Statements</u></a>                              | 8           |
| Item 2                | <a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a> | 29          |
| Item 3                | <a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>                            | 37          |
| Item 4                | <a href="#"><u>Controls and Procedures</u></a>   | 37          |
| <b><u>PART II</u></b> | <b><u>OTHER INFORMATION</u></b>  | 38          |
| Item 1                | <a href="#"><u>Legal Proceedings</u></a>   | 38          |
| Item 1A               | <a href="#"><u>Risk Factors</u></a>  | 38          |
| Item 2                | <a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>                           | 38          |
| Item 3                | <a href="#"><u>Defaults Upon Senior Securities</u></a>   | 38          |
| Item 4                | <a href="#"><u>Mine Safety Disclosures</u></a>   | 38          |
| Item 5                | <a href="#"><u>Other Information</u></a>   | 38          |
| Item 6                | <a href="#"><u>Exhibits</u></a>  | 38          |
|                       | <a href="#"><u>Signatures</u></a>  | 39          |

PART I – FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)

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

|   | (unaudited)<br>September 30,<br>2017 | December 31,<br>2016 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Cash and cash equivalents   | \$ 6,527                             | \$ 14,855            |
| Short-term investment securities  | 29,979                               | 18,456               |
| Accounts receivable, net of allowance for doubtful accounts of \$302 and \$273 at September 30, 2017 and December 31, 2016, respectively  | 18,530                               | 19,101               |
| Inventories, net  | 12,828                               | 14,442               |
| Prepaid expenses and other assets   | 966                                  | 1,498                |
| Current assets held for sale  | 0                                    | 50                   |
| Total current assets  | 68,830                               | 68,402               |
| Property and equipment, net   | 12,227                               | 11,833               |
| Goodwill  | 3,332                                | 3,332                |
| Intangible assets, net  | 2,403                                | 3,275                |
| Deferred tax assets, net  | 5,344                                | 4,512                |
| Other noncurrent assets   | 69                                   | 36                   |
| Non-current assets held for sale  | 0                                    | 776                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 92,205</b>                     | <b>\$ 92,166</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                      |                      |
| Accounts payable  | \$ 5,185                             | \$ 6,073             |
| Accrued liabilities   | 6,734                                | 7,177                |
| Total current liabilities   | 11,919                               | 13,250               |
| Other long-term liabilities   | 430                                  | 391                  |
| Total liabilities   | 12,349                               | 13,641               |
| Stockholders' equity:   |                                      |                      |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 17,762,694 and 17,335,122 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively | 18                                   | 17                   |
| Additional paid-in capital  | 134,441                              | 134,480              |
| Accumulated deficit   | (54,508)                             | (55,590)             |
| Accumulated other comprehensive loss  | (95)                                 | (382)                |
| Total stockholders' equity  | 79,856                               | 78,525               |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 92,205</b>                     | <b>\$ 92,166</b>     |

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

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

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|-----------|------------------------------------|-------------|
|   | 2017                                | 2016      | 2017                               | 2016        |
| <b>REVENUES</b>   | \$ 23,665                           | \$ 20,892 | \$ 68,136                          | \$ 61,383   |
| <b>COST OF REVENUES</b>   | 13,515                              | 12,637    | 39,570                             | 36,735      |
| <b>GROSS PROFIT</b>   | 10,150                              | 8,255     | 28,566                             | 24,648      |
| <b>OPERATING EXPENSES:</b>  |                                     |           |                                    |             |
| Research and development  | 2,757                               | 2,451     | 8,141                              | 7,581       |
| Sales and marketing   | 3,230                               | 3,116     | 9,394                              | 9,070       |
| General and administrative  | 3,146                               | 2,847     | 10,081                             | 9,031       |
| Amortization of intangible assets   | 124                                 | 124       | 372                                | 408         |
| Restructuring expenses  | 0                                   | 17        | 0                                  | 233         |
| Total operating expenses  | 9,257                               | 8,555     | 27,988                             | 26,323      |
| <b>OPERATING INCOME (LOSS)</b>  | 893                                 | (300)     | 578                                | (1,675)     |
| Other income, net   | 32                                  | 35        | 74                                 | 49          |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>  | 925                                 | (265)     | 652                                | (1,626)     |
| (Benefit) expense for income taxes  | 206                                 | (354)     | (68)                               | 6,603       |
| <b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>                                 | 719                                 | 89        | 720                                | (8,229)     |
| <b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT (EXPENSE)</b> | 236                                 | 86        | (148)                              | (4,125)     |
| <b>NET INCOME (LOSS)</b>  | \$ 955                              | \$ 175    | \$ 572                             | \$ (12,354) |
| <b>Net Income (Loss) per Share From Continuing Operations:</b>                      |                                     |           |                                    |             |
| Basic   | \$ 0.04                             | \$ 0.01   | \$ 0.04                            | \$ (0.51)   |
| Diluted   | \$ 0.04                             | \$ 0.01   | \$ 0.04                            | \$ (0.51)   |
| <b>Net Income (Loss) per Share From Discontinued Operations:</b>                    |                                     |           |                                    |             |
| Basic   | \$ 0.01                             | \$ 0.01   | \$ (0.01)                          | \$ (0.26)   |
| Diluted   | \$ 0.01                             | \$ 0.01   | \$ (0.01)                          | \$ (0.26)   |
| <b>Net Income (Loss) per Share:</b>   |                                     |           |                                    |             |
| Basic   | \$ 0.06                             | \$ 0.01   | \$ 0.03                            | \$ (0.77)   |
| Diluted   | \$ 0.06                             | \$ 0.01   | \$ 0.03                            | \$ (0.77)   |
| <b>Weighted Average Shares:</b>   |                                     |           |                                    |             |
| Basic   | 16,757                              | 16,106    | 16,526                             | 16,136      |
| Diluted   | 17,065                              | 16,245    | 16,830                             | 16,136      |
| Cash dividend per share   | \$ 0.055                            | \$ 0.05   | \$ 0.155                           | \$ 0.15     |

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

**PCTEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)**  
**(in thousands, except per share data)**

|   | <u>Three Months Ended September 30,</u> |               | <u>Nine Months Ended September 30,</u> |                    |
|---|---|---------------|--|--------------------|
|   | <u>2017</u>                             | <u>2016</u>   | <u>2017</u>                            | <u>2016</u>        |
| <b>NET INCOME (LOSS)</b>                  | \$ 955                                  | \$ 175        | \$ 572                                 | \$ (12,354)        |
| <b>OTHER COMPREHENSIVE INCOME (LOSS):</b> |   |               |  |                    |
| Foreign currency translation adjustments  | 131                                     | (14)          | 287                                    | (126)              |
| <b>COMPREHENSIVE INCOME (LOSS)</b>        | <u>\$ 1,086</u>                         | <u>\$ 161</u> | <u>\$ 859</u>                          | <u>\$ (12,480)</u> |

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

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

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders'<br>Equity of<br>PCTEL, Inc. |
|---|-----------------|----------------------------------|---------------------|---|--|
| <b>BALANCE at DECEMBER 31, 2016</b>                                 | \$ 17           | \$ 134,480                       | \$ (55,590)         | \$ (382)  | \$ 78,525  |
| Cumulative-effect adjustment resulting from adoption of ASU 2016-09 |                 |                                  | 510                 |   | 510  |
| <b>BALANCE at JANUARY 1, 2017</b>                                   | 17              | 134,480                          | (55,080)            | (382)   | 79,035   |
| Stock-based compensation expense                                    | 1               | 2,506                            | 0                   | 0   | 2,507  |
| Issuance of shares for stock purchase plans                         | 0               | 1,375                            | 0                   | 0   | 1,375  |
| Cancellation of shares for payment of withholding tax               | 0               | (1,190)                          | 0                   | 0   | (1,190)  |
| Dividends paid  | 0               | (2,730)                          | 0                   | 0   | (2,730)  |
| Net income  | 0               | 0                                | 572                 | 0   | 572  |
| Change in cumulative translation adjustment, net                    | 0               | 0                                | 0                   | 287   | 287  |
| <b>BALANCE at SEPTEMBER 30, 2017</b>                                | <u>\$ 18</u>    | <u>\$ 134,441</u>                | <u>\$ (54,508)</u>  | <u>\$ (95)</u>  | <u>\$ 79,856</u>                                   |

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

**PCTEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

|   | Nine Months Ended September 30, |                  |
|---|---------------------------------|------------------|
|   | 2017                            | 2016             |
| <b>Operating Activities:</b>  |                                 |                  |
| Net income (loss) from continuing operations                                    | \$ 720                          | \$ (8,229)       |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                 |                  |
| Depreciation  | 1,913                           | 1,994            |
| Intangible asset amortization   | 872                             | 908              |
| Stock-based compensation  | 2,458                           | 3,069            |
| Loss on disposal/sale of property and equipment                                 | 18                              | 4                |
| Restructuring costs   | (88)                            | 112              |
| Deferred tax provision  | (282)                           | 6,332            |
| Changes in operating assets and liabilities, net of acquisitions:               |                                 |                  |
| Accounts receivable   | 710                             | 2,946            |
| Inventories   | 1,809                           | 2,793            |
| Prepaid expenses and other assets   | 509                             | 306              |
| Accounts payable  | (1,078)                         | (1,360)          |
| Income taxes payable  | (154)                           | (153)            |
| Other accrued liabilities   | (426)                           | (857)            |
| Deferred revenue  | 95                              | 12               |
| Net cash provided by operating activities                                       | <u>7,076</u>                    | <u>7,877</u>     |
| <b>Investing Activities:</b>  |                                 |                  |
| Capital expenditures  | (2,097)                         | (1,550)          |
| Proceeds from disposal of property and equipment                                | 1                               | 1                |
| Purchases of investments  | (37,579)                        | (47,552)         |
| Redemptions/maturities of short-term investments                                | 26,056                          | 54,181           |
| Net cash (used in) provided by investing activities                             | <u>(13,619)</u>                 | <u>5,080</u>     |
| <b>Financing Activities:</b>  |                                 |                  |
| Proceeds from issuance of common stock  | 1,375                           | 649              |
| Payments for repurchase of common stock   | 0                               | (4,095)          |
| Payment of withholding tax on stock-based compensation                          | (1,190)                         | (365)            |
| Principle payments on capital leases  | (64)                            | (34)             |
| Cash dividends  | (2,730)                         | (2,589)          |
| Net cash used in financing activities   | <u>(2,609)</u>                  | <u>(6,434)</u>   |
| <b>Cash flows from discontinued operations:</b>                                 |                                 |                  |
| Net cash used in operating activities   | (697)                           | (321)            |
| Net cash provided by (used in) investing activities                             | 1,434                           | (149)            |
| Net (decrease) increase in cash and cash equivalents                            | (8,415)                         | 6,053            |
| Effect of exchange rate changes on cash   | 87                              | (3)              |
| Cash and cash equivalents, beginning of year                                    | 14,855                          | 7,055            |
| <b>Cash and Cash Equivalents, End of Period</b>                                 | <u>\$ 6,527</u>                 | <u>\$ 13,105</u> |

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

PCTEL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2017 (Unaudited)  
(in thousands except share data and as otherwise noted)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**Nature of Operations**

PCTEL, Inc. ("PCTEL", the "Company", "we", "ours", and "us") delivers Performance Critical TELEcom technology solutions to the wireless industry. PCTEL is a leading global supplier of antennas and wireless network testing solutions. PCTEL's Connected Solutions segment designs and manufactures precision antennas. PCTEL antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for the Industrial Internet of Things ("IIoT"). PCTEL's RF Solutions segment provides test tools that improve the performance of wireless networks globally. Mobile operators, neutral hosts, and equipment manufacturers rely on PCTEL to analyze, design, and optimize next generation wireless networks.

**Segment Reporting**

PCTEL operates in two segments for reporting purposes, Connected Solutions and RF Solutions. The Company's chief operating decision maker uses operating profits and identified assets for the Connected Solutions and RF Solutions segments for resource allocations. Each segment has its own segment manager as well as its own engineering, sales and marketing, and operational general and administrative functions. All of the Company's accounting and finance, human resources, IT and legal functions are provided on a centralized basis through the corporate function. The Company manages its balance sheet and cash flows centrally at the corporate level, with the exception of trade accounts receivable and inventory which is managed at the segment level. Each of the segment managers reports to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment.

**Connected Solutions Segment**

PCTEL Connected Solutions designs and manufactures precision antennas. Our precision antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in equipment and devices for the Industrial Internet of Things (IIoT). We offer in-house design, testing, radio integration, and manufacturing capabilities for our antenna customers. Revenue growth in these markets is driven by the increased use of wireless communications and increased complexity trends occurring in these markets. PCTEL antennas are primarily sold to original equipment manufacturer ("OEM") providers where they are designed into the customer's solution.

Competition in the antenna markets addressed by Connected Solutions is fragmented. Competitors include Airgain, Amphenol, Laird, Pulse, and Taoglas. The Company seeks out product applications that command a premium for product performance and customer service, and avoids 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.

**RF Solutions Segment**

PCTEL RF Solutions provides test tools improve the performance of wireless networks globally, with a focus on LTE, public safety, and emerging 5G technologies. Network operators, neutral hosts, and equipment manufacturers rely on our scanning receivers and testing solutions to analyze, design, and optimize their networks. Revenue growth is driven by the implementation and roll out of new wireless technology standards (i.e., 1G to 2G, 2G to 3G, 3G to 4G, 4G to 5G, etc.). PCTEL test equipment is sold directly to wireless carriers or to OEM providers who integrate the Company's products into their solution which is then sold to wireless carriers.



Competitors for PCTEL's test tool products include OEMs such as Anritsu, Berkley Varitronics, Digital Receiver Technology, and Rohde and Schwarz.

PCTEL maintains expertise in several technology areas in order to be competitive in the test tool market. These include radio frequency engineering, digital signal process ("DSP") engineering, manufacturing, mechanical engineering, product quality and testing, and wireless network engineering.

#### **Discontinued Operations**

During the quarter ended June 30, 2017, the Company approved a plan to sell its Network Engineering Services business ("Engineering Services"), which was part of the RF Solutions segment, and shift its focus towards research and development driven radio frequency ("RF") products. On July 31, 2017, the Company sold substantially all of the Engineering Services assets of the Company's Network Engineering Services business unit to Gabe's Construction Co., Inc. ("Gabe's"). The Company's financial statements have been restated to reflect the historical results of Engineering Services as discontinued operations. The Company classified the Engineering Services assets as held for sale at December 31, 2016 and classified the results of its operations as discontinued operations for the three and nine months ended September 30, 2017 and 2016, respectively. See Note 5 in the notes to the financial statements for more information on discontinued operations.

#### **Basis of Consolidation**

The condensed consolidated balance sheet as of September 30, 2017 and the condensed consolidated statements of operations, statements of comprehensive income (loss), and cash flows for the three and nine months ended September 30, 2017 and 2016, respectively, are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The interim condensed consolidated financial statements are derived from the audited financial statements as of December 31, 2016.

The unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted. The significant accounting policies followed by the Company are set forth within the Company's Annual Report on Form 10-K for the year ended December 31, 2016 ("the 2016 Form 10-K"). There were no changes in the Company's significant accounting policies during the three and nine months ended September 30, 2017. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2016 Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the 2016 Form 10-K. The results of operations for the period ended September 30, 2017 may not be indicative of the results for the period ending December 31, 2017.

#### **Reclassifications**

Certain reclassifications of the prior year's financial statement and footnote amounts have been made to conform to the current year's presentation.

#### **Foreign Operations**

The Company is exposed to foreign currency fluctuations due to its foreign operations and because products are sold internationally. The functional currency for the Company's foreign operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using the exchange rate in effect at the applicable balance sheet date for assets and liabilities and average monthly rates prevailing during the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in the condensed consolidated statement of operations. Net foreign exchange (losses) gains resulting from foreign currency transactions included in other income, net were \$(45) and \$11 for the three months ended September 30, 2017 and 2016, respectively. Net foreign exchange losses resulting from foreign currency transactions included in other income, net were \$(98) and \$(24) for the nine months ended September 30, 2017 and 2016, respectively.

#### **Recent Accounting Pronouncements**

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 as part of the good will impairment test, the result of which is that the impairment charge recognized would now be the amount by which the carrying value exceeds the reporting unit's fair value. The loss to be recognized cannot exceed the amount of goodwill allocated to that reporting unit. The Company early adopted this guidance on January 1, 2017 because its annual impairment

test is performed after January 1, 2017. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This guidance will be effective for us on January 1, 2018. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("ASU 2016-13") regarding ASC Topic 326, "Financial Instruments - Credit Losses," which modifies the measurement of expected credit losses of certain financial instruments. The amendments will be effective for us on January 1, 2020. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. The Company adopted this ASU in the first quarter 2017. Upon adoption, the Company recognized deferred tax assets of \$0.6 million for all excess tax benefits that had not been previously recognized. The Company also elected to recognize forfeitures as incurred. The Company recorded an adjustment of \$0.1 million to deferred tax assets for estimated forfeitures previously recorded. These adjustments were recorded through a cumulative-effect adjustment to retained earnings of approximately \$0.5 million and adjustment to the valuation allowance for \$0.2 million.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the income statement and statement of cash flows. This guidance will be effective for us on January 1, 2019. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. ASU 2015-11 applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. The Company adopted this guidance on January 1, 2017. The adoption of this ASU did not have a material impact to the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" which introduces a new revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This guidance will be effective for us on January 1, 2018. The FASB has also issued the following standards which clarify ASU 2014-09 and have the same effective date as the original standard: ASU 2016-20, Technical Corrections and Improvements to Topic 606, ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, ASU 2016-10, Identifying Performance Obligations and Licensing and ASU 2016-08, Principal versus Agent Considerations.

The Company commenced its assessment of ASU 2014-09 during the first quarter of 2017. The Company has developed its project plan to guide the implementation. This project plan includes analyzing the standard's impact on the Company's contract portfolio, comparing historical accounting policies and practices to the requirements of the new standard and identifying potential differences from applying the requirements of the new standard to its contracts. We made progress on this project plan including categorizing the revenue portfolio, surveying the Company's businesses and discussing the various revenue streams, and completing contract reviews. The Company will draft an updated accounting policy, evaluate new disclosure requirements and identify and implement appropriate changes to the business processes, systems and controls to support recognition and disclosure under the new standard. The Company

expects to adopt this new standard using the modified retrospective method that will result in a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating this guidance and the impact it will have on the consolidated financial statements.

## 2. Fair Value of Financial Instruments

The Company follows accounting guidance for fair value measurements and disclosures, which establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

Cash equivalents are measured at fair value and investments are recognized at amortized cost in the Company's financial statements. Accounts receivable and other investments are financial assets with carrying values that approximate fair value due to the short-term nature of these assets. Accounts payable is a financial liability with a carrying value that approximates fair value due to the short-term nature of these liabilities.

## 3. Earnings per Share

The following table is the computation of basic and diluted earnings per share:

|  | Three Months Ended September 30, |         | Nine Months Ended September 30, |             |
|--|----------------------------------|---------|---------------------------------|-------------|
|  | 2017                             | 2016    | 2017                            | 2016        |
| <b>Basic Earnings Per Share computation:</b>   |                                  |         |                                 |             |
| <b>Numerator:</b>                              |                                  |         |                                 |             |
| Net income (loss) from continuing operations   | \$ 719                           | \$ 89   | \$ 720                          | \$ (8,229)  |
| Net income (loss) from discontinued operations | \$ 236                           | \$ 86   | \$ (148)                        | \$ (4,125)  |
| Net income (loss)                              | \$ 955                           | \$ 175  | \$ 572                          | \$ (12,354) |
| <b>Denominator:</b>                            |                                  |         |                                 |             |
| Common shares outstanding                      | 16,757                           | 16,106  | 16,526                          | 16,136      |
| <b>Earnings per common share - basic</b>       |                                  |         |                                 |             |
| Net income (loss) from continuing operations   | \$ 0.04                          | \$ 0.01 | \$ 0.04                         | \$ (0.51)   |
| Net income (loss) from discontinued operations | \$ 0.01                          | \$ 0.01 | \$ (0.01)                       | \$ (0.26)   |
| Net income (loss)                              | \$ 0.06                          | \$ 0.01 | \$ 0.03                         | \$ (0.77)   |
| <b>Diluted Earnings Per Share computation:</b> |                                  |         |                                 |             |
| <b>Denominator:</b>                            |                                  |         |                                 |             |
| Common shares outstanding                      | 16,757                           | 16,106  | 16,526                          | 16,136      |
| Restricted shares subject to vesting           | 304                              | 139     | 302                             | *           |
| Common stock option grants                     | 4                                | 0       | 2                               | *           |
| Total shares                                   | 17,065                           | 16,245  | 16,830                          | 16,136      |
| <b>Earnings per common share - diluted</b>     |                                  |         |                                 |             |
| Net income (loss) from continuing operations   | \$ 0.04                          | \$ 0.01 | \$ 0.04                         | \$ (0.51)   |
| Net income (loss) from discontinued operations | \$ 0.01                          | \$ 0.01 | \$ (0.01)                       | \$ (0.26)   |
| Net income (loss)                              | \$ 0.06                          | \$ 0.01 | \$ 0.03                         | \$ (0.77)   |

\* As denoted by "\*" in the table above, the weighted average common stock option grants and restricted shares of 140,000 for the nine months ended September 30, 2016, were excluded from the calculations of diluted net loss per share since their effects are anti-dilutive.

#### 4. Cash, Cash Equivalents and Investments

The Company's cash and investments consisted of the following:

|                        | September 30,<br>2017 | December 31,<br>2016 |
|------------------------|-----------------------|----------------------|
| Cash                   | \$ 4,822              | \$ 7,507             |
| Cash equivalents       | 1,705                 | 7,348                |
| Short-term investments | 29,979                | 18,456               |
|                        | <u>\$ 36,506</u>      | <u>\$ 33,311</u>     |

##### **Cash and Cash Equivalents**

At September 30, 2017 and December 31, 2016, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At September 30, 2017 and December 31, 2016, the Company's cash equivalents were invested in highly liquid AAA rated money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940. Such funds utilize the amortized cost method of accounting, seek to maintain a constant \$1.00 per share price, and are redeemable upon demand. The Company restricts its investments in AAA money market funds to those invested 100% in either short-term U.S. government agency securities or bank repurchase agreements collateralized by these same securities. The fair values of these money market funds are established through quoted prices in active markets for identical assets (Level 1 inputs). The Company's cash in U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of \$250.

At September 30, 2017, the Company had \$4.8 million in cash and \$1.7 million in cash equivalents, and at December 31, 2016, the Company had \$7.5 million in cash and \$7.3 million in cash equivalents. At September 30, 2017, the Company had in cash equivalents \$0.5 million in AA rated or higher corporate bonds, \$8 million in U.S. government agency bonds, and \$0.5 million in money market funds. At December 31, 2016, the Company had in cash equivalents, \$3.6 million in AA rated or higher corporate bonds, \$2.8 million in U.S. government agency bonds, \$0.8 million in certificates of deposit, and \$0.1 million in money market funds.

The Company had \$1.4 million and \$0.9 million of cash and cash equivalents in foreign bank accounts at September 30, 2017 and December 31, 2016, respectively. With respect to the cash in foreign bank accounts, the Company had cash of \$1.2 million and \$0.5 million in Chinese bank accounts at September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, the Company has no intention of repatriating the cash in its foreign bank accounts in China. If the Company decides to repatriate the cash in the foreign bank accounts, it may experience difficulty in doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds. The Company's cash in its foreign bank accounts is not insured. The Company ceased ongoing operations of its Israel subsidiary during the third quarter 2016. The Company expects to liquidate the subsidiary and repatriate its remaining cash in 2018.

##### **Investments**

At September 30, 2017 and December 31, 2016, the Company's short-term investments consisted of pre-refunded municipal bonds, U.S. government agency bonds, AA or higher rated corporate bonds, and certificates of deposit, all classified as held-to-maturity. At September 30, 2017, the Company had invested \$15.0 million in AA rated or higher corporate bonds, \$6.2 million in certificates of deposit, \$4.4 million in pre-refunded municipal bonds, and \$4.4 million in U.S. government agency bonds. The income and principal from the pre-refunded municipal bonds are secured by an irrevocable trust of U.S. Treasury securities. The bonds have original maturities greater than 90 days and mature in less than one year. The Company's bond investments are recorded at the purchase price and carried at amortized cost. The net unrealized losses were \$15 and \$9 at September 30, 2017 and December 31, 2016, respectively. Approximately 3% and 6% of the Company's bond investments were protected by bond default insurance at September 30, 2017 and December 31, 2016, respectively.

At December 31, 2016, the Company had invested \$7.8 million in pre-refunded municipal bonds and taxable bond funds, \$5.6 million in AA rated or higher corporate bond funds, \$2.6 million in U.S. government agency bonds, and \$2.5 million in certificates of deposit.

The Company categorizes its financial instruments within a fair value hierarchy according to accounting guidance for fair value. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 2. For the Level 2 investments, the Company uses quoted prices of similar assets in active markets.

Cash equivalents and investments measured at fair value were as follows at September 30, 2017 and December 31, 2016:

|                              | September 30, 2017 |                  |             |                  | December 31, 2016 |                  |             |                  |
|------------------------------|--------------------|------------------|-------------|------------------|-------------------|------------------|-------------|------------------|
|                              | Level 1            | Level 2          | Level 3     | Total            | Level 1           | Level 2          | Level 3     | Total            |
| <b>Cash equivalents:</b>     |                    |                  |             |                  |                   |                  |             |                  |
| Corporate bonds              | \$ 0               | \$ 499           | \$ 0        | \$ 499           | \$ 0              | \$ 3,608         | \$ 0        | \$ 3,608         |
| US government agency bonds   | 0                  | 752              | 0           | 752              | 0                 | 2,846            | 0           | 2,846            |
| Certificates of deposit      | 0                  | 0                | 0           | 0                | 750               | 0                | 0           | 750              |
| Money market funds           | 454                | 0                | 0           | 454              | 145               | 0                | 0           | 145              |
| <b>Investments:</b>          |                    |                  |             |                  |                   |                  |             |                  |
| Corporate bonds              | 0                  | 14,958           | 0           | 14,958           | 0                 | 5,569            | 0           | 5,569            |
| Pre-refunded municipal bonds | 0                  | 4,437            | 0           | 4,437            | 0                 | 7,776            | 0           | 7,776            |
| US government agency bonds   | 0                  | 4,407            | 0           | 4,407            | 0                 | 2,571            | 0           | 2,571            |
| Certificates of deposit      | 6,162              | 0                | 0           | 6,162            | 2,530             | 0                | 0           | 2,530            |
| Total                        | <u>\$ 6,616</u>    | <u>\$ 25,053</u> | <u>\$ 0</u> | <u>\$ 31,669</u> | <u>\$ 3,425</u>   | <u>\$ 22,370</u> | <u>\$ 0</u> | <u>\$ 25,795</u> |

## 5. Discontinued Operations

During the quarter ended June 30, 2017, the Company approved a plan to sell its Network Engineering Services business (“Engineering Services”) and shift its focus towards research and development driven radio frequency (“RF”) products. On July 31, 2017, the Company sold its Network Engineering Services business to Gabe’s Construction Co., Inc. (“Gabe’s”). The Company filed a Form 8-K related to the disposition on August 4, 2017.

The disposition met the requirements for classification as held for sale during the quarter ended June 30, 2017 because the disposition met all of the criteria outlined in the accounting guidance. Due to the significance of the results during the years ended December 31, 2016, 2015, and 2014, and because this disposition represents a strategic shift by the Company to focus on products, the disposition of Engineering Services also qualified as a discontinued operation for reporting purposes. As such, the Company reported the results of its Engineering Services business as discontinued operations beginning with the quarter ended June 30, 2017. In this quarterly report on Form 10-Q, the results for Engineering Services are reported as discontinued operations for the three and nine months ended September 30, 2017 and 2016, respectively. All of the revenues and cost of revenues in discontinued operations related to services provided by the Company.

The Company sold the fixed assets and backlog of the Network Engineering Services business to Gabe’s for \$1.45 million. At closing, the Company received \$1.4 million, consisting of \$1.3 million for the sale of the business and \$0.1 million related to future services. A pre-tax book gain of \$0.5 million is included in discontinued operations in the three and nine months ended September 30, 2017. The net pre-tax book gain includes proceeds from the sale of assets minus the book value of the assets disposed as well as severance and related payroll benefits for terminated employees. The book value of the assets was \$0.6 million at the date of closing. On August 1, 2017, the Company terminated 25 employees and Gabe’s hired 11 of these employees. The severance and related benefits for the terminated employees were not subsequently hired by Gabe’s was \$0.2 million. The income tax gain was \$0.3 million, which included the tax value of the fixed assets and the remaining tax value for intangible assets no longer being used by the Company as of the sale to Gabe’s. The Company retained working capital of approximately \$0.5 million, including accounts receivable, accounts payable, and accrued liabilities. Subsequent to the sale, the Company is providing transition services for billing and accounts receivable collection. This transition is expected to be complete by the end of the quarter ended December 31, 2017.

There was no impairment loss recorded on the long-lived assets because the fair value of the assets less cost to sell was higher than the carrying value of the assets. At December 31, 2016, the assets held for sale consisted of the fixed assets of \$0.6 million and prepaid expenses of the business of \$0.1 million. For the balance sheet at December 31, 2016, the Company reclassified the fixed assets to noncurrent assets held for sale and the prepaid expenses to current assets held for sale. There were no liabilities classified as held for sale at December 31, 2016. investing cash flows included the proceeds from the sale to Gabe’s.

The following table is a reconciliation of the assets classified as held for sale in the consolidated balance sheets.

|                                   | September 30,<br>2017 | December 31,<br>2016 |
|-----------------------------------|-----------------------|----------------------|
| Prepaid expenses and other assets | 0                     | 50                   |
| Current assets held for sale      | 0                     | 50                   |
| Fixed assets                      | 0                     | 776                  |
| Non-current assets held for sale  | \$ 0                  | \$ 776               |

The details of the discontinued operations within the Statements of Operations are as follows:

|                                       | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|---------------------------------------|-------------------------------------|----------|------------------------------------|------------|
|                                       | 2017                                | 2016     | 2017                               | 2016       |
| Revenues                              | \$ 368                              | \$ 3,795 | \$ 3,725                           | \$ 8,621   |
| Cost of revenues                      | 415                                 | 3,113    | 3,974                              | 8,044      |
| Gross profit                          | (47)                                | 682      | (249)                              | 577        |
| Operating expenses:                   |                                     |          |                                    |            |
| Sales and marketing                   | 51                                  | 280      | 400                                | 855        |
| General and administrative            | 4                                   | 43       | 31                                 | 126        |
| Amortization of intangible assets     | 0                                   | 126      | 0                                  | 1,022      |
| Impairment of intangible assets       | 0                                   | 0        | 0                                  | 4,724      |
| Restructuring expenses                | 0                                   | 96       | 8                                  | 420        |
| Total operating expenses              | 55                                  | 545      | 439                                | 7,147      |
| Operating (loss) income               | (102)                               | 137      | (688)                              | (6,570)    |
| Gain on sale                          | (503)                               | 0        | (503)                              | 0          |
| Net (loss) income before income taxes | 401                                 | 137      | (185)                              | (6,570)    |
| Expense (benefit) for income taxes    | 165                                 | 51       | (37)                               | (2,445)    |
| Net (loss) income                     | \$ 236                              | \$ 86    | \$ (148)                           | \$ (4,125) |

The details of the cash flows for discontinued operations are as follows:

|   | Nine Months Ended September 30 |            |
|---|--------------------------------|------------|
|   | 2017                           | 2016       |
| <b>Cash flows from discontinued operations:</b>     |                                |            |
| <b>Operating Activities:</b>                        |                                |            |
| Net loss  | \$ (148)                       | \$ (4,125) |
| Gain on sale of assets                              | (803)                          | 0          |
| Depreciation  | 197                            | 411        |
| Intangible amortization                             | 0                              | 1,022      |
| Impairment of intangible assets                     | 0                              | 4,724      |
| Deferred tax provision                              | (37)                           | (2,445)    |
| Stock compensation                                  | 49                             | 118        |
| Prepaid expenses and other assets                   | 2                              | (26)       |
| Accrued liabilities                                 | 43                             | 0          |
| Net cash used in operating activities               | \$ (697)                       | \$ (321)   |
| <b>Investing Activities:</b>                        |                                |            |
| Capital expenditures                                | \$ (16)                        | \$ (149)   |
| Proceeds from sale of assets                        | 1,450                          | 0          |
| Net cash provided by (used) in investing activities | \$ 1,434                       | \$ (149)   |

The investing cash flows for the nine months ended September 30, 2017 includes the proceeds from the sale of assets to Gabe's

## 6. Goodwill and Intangible Assets

### Goodwill

There were no changes to goodwill during the nine months ended September 30, 2017. The \$3.3 million of goodwill on the balance sheet was recorded in February 2015 as part of the purchase accounting for the Nexgen acquisition and was assigned to the RF Solutions segment. For evaluation purposes, this goodwill is part of the products reporting unit within the RF Solutions segment. There were no triggering events for the products reporting unit of the RF Solutions segment during the quarter ended September 30, 2017. The Company will continue to monitor goodwill for impairment going forward.

### Intangible Assets

The Company amortizes intangible assets with finite lives on a straight-line basis over the estimated useful lives, which range from one to six years. In continuing operations, amortization expense was approximately \$0.3 million for the three months ended September 30, 2017 and 2016, respectively and \$0.9 million for the nine months ended September 30, 2017 and 2016, respectively. Amortization for technology assets is included in cost of revenues and amortization for all other intangible assets is included in operating expenses. For the three months ended September 30, 2017 and 2016, \$0.2 million of the amortization expense was included in cost of revenues. For the nine months ended September 30, 2017 and 2016, \$0.5 million of the amortization expense was included in cost of revenues. In discontinued operations, amortization expense was approximately \$0.1 million and \$1.0 million for the three and nine months ended September 30, 2016, respectively. There was no amortization expense in discontinued operations for the three and nine months ended September 30, 2017, respectively.

The summary of other intangible assets, net is as follows:

|                                      | September 30, 2017 |                          |                 | December 31, 2016 |                          |                 |
|--------------------------------------|--------------------|--------------------------|-----------------|-------------------|--------------------------|-----------------|
|                                      | Cost               | Accumulated Amortization | Net Book Value  | Cost              | Accumulated Amortization | Net Book Value  |
| Customer contracts and relationships | \$ 16,880          | \$ 16,880                | \$ 0            | \$ 17,380         | \$ 17,380                | \$ 0            |
| Patents and technology               | 10,114             | 8,503                    | 1,611           | 10,114            | 8,004                    | 2,110           |
| Trademarks and trade names           | 4,834              | 4,248                    | 586             | 4,960             | 4,111                    | 849             |
| Other                                | 2,506              | 2,300                    | 206             | 2,743             | 2,427                    | 316             |
|                                      | <u>\$ 34,334</u>   | <u>\$ 31,931</u>         | <u>\$ 2,403</u> | <u>\$ 35,197</u>  | <u>\$ 31,922</u>         | <u>\$ 3,275</u> |

The \$0.9 million decrease in the net book value of intangible assets at September 30, 2017 compared to December 31, 2016 relates to amortization expense for the nine months ended September 30, 2017.

During 2016, the Company recorded total impairment expense of \$5.8 million related to customer relationships for the Engineering Services reporting unit within the RF Solutions segment, consisting of \$4.7 million at September 30, 2016 and \$1.1 million at December 31, 2016. The impairment expense is included within discontinued operations on the statement of earnings for the three and nine months ended September 30, 2016. During the quarter ended June 30, 2017, the Company decided to sell the Engineering Services reporting unit.

For the three months ended June 30, 2016, the revenue and contribution margin of the Engineering Services reporting unit were below its forecasts. The results and revised forecast were reflective of a long-term slowdown in the Distributed Antenna System ("DAS") market which is the primary market addressed by the Company's services offering. The Company considered the changes to its forecast and the industry and market trends as a triggering event to assess the intangible assets of the Engineering Services reporting units for impairment. The Company reviewed the intangible assets for impairment by performing a test of recoverability. The cash flow forecast prepared by the Company included assumptions for revenues, gross margins, and operating expenses. The test of recoverability failed because the undiscounted cash flows were below the carrying value of the Engineering Services reporting unit. The Company calculated the fair value of the Engineering Services reporting unit with the assistance of a third-party valuation firm.

For the three months ended December 31, 2016, the revenues and contribution margin for the Engineering Services reporting unit declined sequentially. The fourth quarter 2016 gross margin was negatively impacted by the lower revenue volume and by lower average margins on individual projects. At December 31, 2016, the backlog was lower than historical trends and there were no known large projects in the sales funnel. Based on these facts and an updated review of the market and industry trends, the Company lowered its profit forecast for 2017 compared to the profit forecast prepared for the 2017 operating plan and the Company lowered its long-term revenue and profit forecast. The Company determined that the revision to the forecast for Engineering Services reporting unit was a triggering event for its review of intangible assets for impairment. The Company reviewed its intangible assets for impairment

by performing a test of recoverability. The cash flow forecast prepared by the Company included assumptions for revenues, gross margins, and operating expenses. The test of recoverability failed because the undiscounted cash flows were below the carrying value of the Engineering Services reporting unit. The Company calculated the fair value of the Engineering Services reporting unit based on the valuation assumptions from the analysis prepared at June 30, 2016. The impairment charge of \$1.1 million represented the remaining value of the customer relationships as of December 31, 2016.

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

| <u>Intangible Assets</u>             | <u>Assigned Life</u> | <u>Weighted Average Amortization Period</u> |
|--------------------------------------|----------------------|---|
| Customer contracts and relationships | 5 years              | 5.0   |
| Patents and technology               | 5 to 6 years         | 5.1   |
| Trademarks and trade names           | 5 to 6 years         | 5.6   |
| Other                                | 1 to 6 years         | 3.0   |

The Company's scheduled amortization expense for 2017 and the next three years is as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|---------------|
| 2017               | \$ 1,162      |
| 2018               | \$ 1,084      |
| 2019               | \$ 885        |
| 2020               | \$ 144        |

## 7. Balance Sheet Information

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amount with standard net terms that range between 30 and 90 days. The Company extends credit to its customers based on an evaluation of a customer's financial condition and collateral is generally not required. The Company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the Company's assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. The Company's allowance for doubtful accounts was \$0.3 million at September 30, 2017 and at December 31, 2016. The provision for doubtful accounts is included in sales and marketing expense in the condensed consolidated statements of operations.

### Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the first-in, first-out ("FIFO") method of costing. Inventories as of September 30, 2017 and December 31, 2016 were composed of raw materials, sub-assemblies, finished goods and work-in-process. The Company had consigned inventory with customers of \$0.7 million and \$0.4 million at September 30, 2017 and December 31, 2016, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or market, including allowances for excess and obsolete inventory. 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. The allowance for inventory losses was \$3.2 million at September 30, 2017 and \$2.9 million at December 31, 2016.

Inventories consisted of the following:

|                  | <u>September 30,</u><br><u>2017</u> | <u>December 31,</u><br><u>2016</u> |
|------------------|-------------------------------------|------------------------------------|
| Raw materials    | \$ 7,053                            | \$ 8,718                           |
| Work in process  | 1,324                               | 1,486                              |
| Finished goods   | 4,451                               | 4,238                              |
| Inventories, net | <u>\$ 12,828</u>                    | <u>\$ 14,442</u>                   |

### Prepaid and Other Current Assets

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



### **Property and Equipment**

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

Property and equipment consisted of the following:

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Building  | \$ 6,351              | \$ 6,351             |
| Computers and office equipment                  | 11,615                | 10,683               |
| Manufacturing and test equipment                | 12,653                | 11,638               |
| Furniture and fixtures                          | 1,257                 | 1,225                |
| Leasehold improvements                          | 1,348                 | 1,191                |
| Motor vehicles                                  | 20                    | 20                   |
| Total property and equipment                    | 33,244                | 31,108               |
| Less: Accumulated depreciation and amortization | (22,787)              | (21,045)             |
| Land  | 1,770                 | 1,770                |
| Property and equipment, net                     | <u>\$ 12,227</u>      | <u>\$ 11,833</u>     |

Depreciation and amortization expense in continuing operations was approximately \$0.7 million for the three months ended September 30, 2017 and 2016, respectively. Depreciation and amortization expense in continuing operations was approximately \$1.9 million and \$2.0 million for the nine months ended September 30, 2017 and 2016, respectively. Amortization for capital leases is included in depreciation and amortization expense. See Note 10 for information related to capital leases.

### **Liabilities**

Accrued liabilities consisted of the following:

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Payroll, bonuses, and other employee benefits | \$ 2,298              | \$ 2,029             |
| Inventory receipts                            | 1,531                 | 1,622                |
| Paid time off                                 | 1,084                 | 1,230                |
| Warranties                                    | 418                   | 394                  |
| Income and sales taxes                        | 344                   | 546                  |
| Professional fees and contractors             | 224                   | 320                  |
| Deferred revenues                             | 199                   | 104                  |
| Employee stock purchase plan                  | 128                   | 300                  |
| Real estate taxes                             | 122                   | 152                  |
| Customer prepayments                          | 45                    | 164                  |
| Restructuring                                 | 24                    | 126                  |
| Other   | 317                   | 190                  |
| Total   | <u>\$ 6,734</u>       | <u>\$ 7,177</u>      |

Long-term liabilities consisted of the following:

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Long-term obligations under capital leases | \$ 196                | \$ 157               |
| Deferred rent                              | 107                   | 156                  |
| Restructuring                              | 84                    | 70                   |
| Deferred revenues                          | 43                    | 8                    |
| Total                                      | <u>\$ 430</u>         | <u>\$ 391</u>        |

## 8. Stock-Based Compensation

The condensed consolidated statements of operations include \$0.7 million and \$2.5 million of stock compensation expense for the three and nine months ended September 30, 2017, respectively. The condensed consolidated statements of operations include \$0.9 million and \$3.2 million of stock compensation expense for the three and nine months ended September 30, 2016, respectively.

|                                | Three Months Ended |               | Nine Months Ended |                 |
|--------------------------------|--------------------|---------------|-------------------|-----------------|
|                                | September 30       |               | September 30      |                 |
|                                | 2017               | 2016          | 2017              | 2016            |
| Service-based restricted stock | \$ 612             | \$ 640        | \$ 2,291          | \$ 2,368        |
| Employee stock purchase plan   | 50                 | 40            | 138               | 125             |
| Stock options                  | (1)                | 34            | 29                | 145             |
| Stock bonuses                  | 0                  | 264           | 0                 | 431             |
| Total continuing operations    | 661                | 978           | 2,458             | 3,069           |
| Discontinued operations        | (0)                | (34)          | 49                | 118             |
| Total                          | <u>\$ 661</u>      | <u>\$ 944</u> | <u>\$ 2,507</u>   | <u>\$ 3,187</u> |

The Company did not capitalize any stock compensation expense during the three and nine months ended September 30, 2017 or 2016. Effective January 1, 2017, the Company has elected to account for forfeitures as they occur. Prior to fiscal year 2017, the Company estimated the number of stock-based awards that were expected to vest, and only recognized compensation expense for such awards.

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

|                             | Three Months Ended |            | Nine Months Ended |              |
|-----------------------------|--------------------|------------|-------------------|--------------|
|                             | September 30,      |            | September 30,     |              |
|                             | 2017               | 2016       | 2017              | 2016         |
| Cost of revenues            | 67                 | 78         | 200               | 219          |
| Research and development    | 128                | 183        | 394               | 525          |
| Sales and marketing         | 117                | 176        | 363               | 477          |
| General and administrative  | 349                | 541        | 1,501             | 1,848        |
| Total continuing operations | 661                | 978        | 2,458             | 3,069        |
| Discontinued operations     | 0                  | (34)       | 49                | 118          |
| Total                       | <u>661</u>         | <u>944</u> | <u>2,507</u>      | <u>3,187</u> |

### Restricted Stock – Service Based

The Company grants restricted shares as employee incentives. When service-based restricted stock is granted to employees, the Company records deferred stock compensation within additional paid in capital, representing the fair value of the common stock on the date the restricted shares are granted. The Company records stock compensation expense on a straight-line basis over the vesting period of the applicable service-based restricted shares. These grants vest over various periods, but typically vest over four years. During the first quarter 2017, the Company issued 285,000 service-based restricted stock awards to employees as long-term incentives that cliff vest in two years.

The following table summarizes service-based restricted stock activity for the nine months ended September 30, 2017:

|  | <u>Shares</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|--|---------------|---|
| <b>Unvested Restricted Stock Awards - December 31, 2016</b>  | 1,120,960     | \$ 5.83   |
| Shares awarded   | 337,786       | 6.13  |
| Shares vested  | (474,895)     | 6.39  |
| Shares cancelled   | (75,763)      | 6.06  |
| <b>Unvested Restricted Stock Awards - September 30, 2017</b> | 908,088       | \$ 5.63   |

The intrinsic value of service-based restricted shares that vested during the three months ended September 30, 2017, and 2016, was \$1.3 million and \$0.6 million, respectively. The intrinsic value of service-based restricted shares that vested during the nine months ended September 30, 2017, and 2016, was \$2.5 million and \$1.0 million, respectively. The intrinsic value of service-based restricted shares that vested during the three months ended September 30, 2017, and 2016, was \$1.3 million and \$0.6 million, respectively. The Company accelerated the vesting of 7,387 restricted shares and cancelled 37,793 unvested restricted shares for terminated employees of the Engineering Services business.

At September 30, 2017, total unrecognized compensation expense related to restricted stock was approximately \$3.3 million to be recognized through 2020 over a weighted average period of 1.4 years.

#### **Restricted Stock Units – Service Based**

The Company grants restricted stock units as employee incentives. Restricted stock units are primarily granted to foreign employees for long-term incentive purposes. Employee restricted stock units are service-based awards and are amortized over the vesting period. At the vesting date, these units are converted to shares of common stock. The Company records expense on a straight-line basis for restricted stock units.

The following table summarizes the restricted stock unit activity during the nine months ended September 30, 2017:

|   | <u>Units</u> | <u>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</u> |
|---|--------------|---|
| <b>Unvested Restricted Stock Units - December 31, 2016</b>  | 36,388       | \$ 5.57   |
| Units awarded   | 5,000        | 5.97  |
| Units vested  | (6,588)      | 6.44  |
| <b>Unvested Restricted Stock Units - September 30, 2017</b> | 34,800       | \$ 5.47   |

The intrinsic value of service-based restricted stock units that vested and were issued as shares during the nine months ended September 30, 2017 and 2016 was \$40 and \$7, respectively. No units vested during the three months ended September 30, 2017 or 2016.

As of September 30, 2017, the unrecognized compensation expense related to the unvested portion of the Company's restricted stock units was approximately \$0.1 million, to be recognized through 2020 over a weighted average period of 0.9 years.

#### **Stock Options**

The Company grants stock options to purchase common stock as long-term incentives. The exercise price of the stock options is no less than the fair value of the Company's stock on the grant date. The stock options have a seven-year life and generally vest over a period of four years, 25% after one year, and monthly thereafter. Stock options may be exercised at any time prior to their expiration date or within ninety days of termination of employment, or such shorter time as may be provided in the related stock option agreement.

A summary of the Company's stock option activity for the nine months ended September 30, 2017 is as follows:

|  | Options<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price |
|--|------------------------|--|
| <b>Outstanding at December 31, 2016</b>  | 825,561                | \$ 7.30                                  |
| Exercised                                | (121,026)              | 7.11                                     |
| Expired or Cancelled                     | (83,182)               | 8.35                                     |
| Forfeited                                | (40,652)               | 6.70                                     |
| <b>Outstanding at September 30, 2017</b> | 580,701                | \$ 7.23                                  |
| <b>Exercisable at September 30, 2017</b> | 567,025                | \$ 7.27                                  |

There were no stock options granted during the nine months ended September 30, 2017.

The range of exercise prices for options outstanding and exercisable at September 30, 2017, was \$5.00 to \$10.46. The following table summarizes information about stock options outstanding under all stock option plans:

| Range of<br>Exercise Prices (\$) | Options Outstanding   |  |  | Options Exercisable   |                                       |
|----------------------------------|-----------------------|--|--|-----------------------|---------------------------------------|
|                                  | Number<br>Outstanding | Weighted<br>Average<br>Contractual Life<br>(# Years) | Weighted-<br>Average<br>Exercise Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise Price |
| \$ 5.00 -- \$ 6.00               | 13,900                | 5.81   | \$ 5.08                                | 3,400                 | \$ 5.17                               |
| 6.01 -- 7.00                     | 38,289                | 0.60   | 6.82                                   | 38,289                | 6.82                                  |
| 7.01 -- 8.00                     | 493,708               | 2.50   | 7.20                                   | 491,960               | 7.20                                  |
| 8.01 -- 9.00                     | 16,567                | 1.48   | 8.31                                   | 15,171                | 8.33                                  |
| 9.01 -- 10.00                    | 16,837                | 0.81   | 9.62                                   | 16,805                | 9.62                                  |
| 10.01 -- 10.46                   | 1,400                 | 0.84   | 10.46                                  | 1,400                 | 10.46                                 |
| <b>\$ 5.00 -- \$ 10.46</b>       | <b>580,701</b>        | <b>2.37</b>  | <b>\$ 7.23</b>                         | <b>567,025</b>        | <b>\$ 7.27</b>                        |

The weighted average contractual life and intrinsic value at September 30, 2017, was the following:

|                            | Weighted<br>Average<br>Contractual<br>Life (years) | Intrinsic<br>Value |
|----------------------------|--|--------------------|
| <b>Options Outstanding</b> | 2.37   | \$ 17              |
| <b>Options Exercisable</b> | 2.29   | \$ 4               |

The intrinsic value is based on the share price of \$6.30 at September 30, 2017.

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

The Company calculated the volatility based on a five-year historical period of the Company's stock price. The expected life used for options granted was based on historical data of employee exercise performance. The dividend yield rate was calculated by dividing the Company's annual dividend by the closing price on the grant date. The risk-free interest rate was based on the U.S. Treasury yields with remaining term that approximates the expected life of the options granted. The volatility was based on a five-year historical period of the Company's stock price. The Company records expense based on the grading vesting method.

As of September 30, 2017, the unrecognized compensation expense related to the unvested portion of the Company's stock options was approximately \$43 to be recognized through 2020 over a weighted average period of 1.1 years.

### **Performance-based Equity Awards**

Performance awards are restricted shares that vest if certain annual performance measures are met. The Company had 255,500 unvested performance awards at September 30, 2017. As of September 30, 2017, the Company does not expect any of these performance awards to vest. There were forfeitures of 41,000 awards during the nine months ended September 30, 2017 due to employee attrition.

The following table summarizes the performance-based equity activity during the nine months ended September 30, 2017:

|  | Units    | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--|----------|---|
| <b>Unvested Performance Units - December 31, 2016</b>  | 296,500  | \$ 7.95   |
| Units cancelled  | (41,000) | 7.82  |
| <b>Unvested Performance Units - September 30, 2017</b> | 255,500  | \$ 7.97   |

### **Short-term incentive plan**

For the Company's 2016 short-term incentive plan ("STIP"), executives were paid in shares of the Company's stock. During the first quarter of 2017, the Company issued 112,916 shares with a fair value of \$0.6 million earned under the 2016 STIP. The Company recorded the expense during the year ended December 31, 2016. No shares were issued for the STIP during the second or third quarter 2017. Because all bonuses earned for the 2017 STIP will be paid in cash, there was no stock compensation expense recorded related to the STIP during the nine months ended September 30, 2017. The accrual for the 2017 STIP and the cash portion of the 2016 STIP is included in the accrual for payroll, bonuses, and other employee benefits at September 30, 2017 and December 31, 2016, respectively in the liabilities section of Note 7. The Company expects to pay the 2017 STIP in March 2018.

### **Employee Stock Purchase Plan ("ESPP")**

The ESPP enables eligible employees to purchase common stock at the lower of 85% of the fair market value of the common stock on the first or last day of each offering period. Each offering period is approximately six months. The Company received proceeds of \$0.3 million from the issuance of 67,383 shares under the ESPP in August 2017 and received proceeds of \$0.3 million from the issuance of 67,533 shares under the ESPP in August 2016. The Company received proceeds of \$0.3 million from the issuance of 72,218 shares under the ESPP in February 2017 and received proceeds of \$0.4 million from the issuance of 78,415 shares under the ESPP in February 2016.

Based on the 15% discount and the fair value of the option feature of this plan, this plan is considered compensatory. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model.

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

|                          | September 30, |      |
|--------------------------|---------------|------|
|                          | 2017          | 2016 |
| Dividend yield           | 3.5%          | 4.2% |
| Risk-free interest rate  | 1.1%          | 0.6% |
| Expected volatility      | 34%           | 34%  |
| Expected life (in years) | 0.5           | 0.5  |

The dividend yield rate was calculated by dividing the Company's annual dividend by the closing price on the grant date. The risk-free interest rate was based on the U.S. Treasury yields with a remaining term that approximates the expected life of the options granted. The dividend yield rate is calculated by dividing the Company's annual dividend by the closing price on the grant date. The Company calculates the volatility based on a five-year historical period of the Company's stock price. The expected life used is based on the offering period.

### **Employee Withholding Taxes on Stock Awards**

For ease in administering the issuance of stock awards, the Company holds back shares of vested restricted stock awards and short-term incentive plan stock awards for the value of the statutory withholding taxes. For each individual receiving a share award, the Company redeems the shares it computes as the value for the withholding tax and remits this amount to the appropriate tax authority.

For withholding taxes related to stock awards, the Company paid \$1.2 million and \$0.4 million during the nine months ended September 30, 2017 and 2016, respectively.

### **Stock Repurchases**

No shares have been repurchased during 2017. The Company repurchased 783,212 shares at an average price of \$5.23 during the first quarter 2016. There are no current programs to repurchase shares.

## **9. Benefit Plans**

### **Employee Benefit Plans**

The Company's 401(k) plan covers all U.S. employees beginning the first day of the month following the first month of their employment. Under this plan, employees may elect to contribute up to 15% of their current compensation to the 401(k) plan up to the statutorily prescribed annual limit. The Company matches employee contributions up to 4% and may also make discretionary contributions to the 401(k) plan. The Company also contributes to various retirement plans for foreign employees.

The Company's contributions to retirement plans were as follows:

|   | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |               |
|---|---------------------------|---------------|--------------------------|---------------|
|   | <b>September 30,</b>      |               | <b>September 30,</b>     |               |
|   | <b>2017</b>               | <b>2016</b>   | <b>2017</b>              | <b>2016</b>   |
| PCTEL, Inc. 401(k) Profit sharing Plan - US employees | \$ 173                    | \$ 168        | \$ 533                   | \$ 509        |
| Defined contribution plans - foreign employees        | 117                       | 89            | 325                      | 285           |
| <b>Total</b>  | <b>\$ 290</b>             | <b>\$ 257</b> | <b>\$ 858</b>            | <b>\$ 794</b> |

## **10. Commitments and Contingencies**

### **Restructuring**

The restructuring liability at September 30, 2017 and December 31, 2016 is primarily related to the Company's exit from its Colorado office during the first quarter 2016. The restructuring liability includes the remaining obligations under the Colorado lease, net of proceeds for a sublease. The Company signed a sublease for the office space in the second quarter 2017. The Company exited from its Colorado office in order to consolidate facility space for its Engineering Services reporting unit. The restructuring expense related to the Colorado lease is included in discontinued operations in the statements of earnings for the nine months ended September 30, 2017 and 2016, respectively. The restructuring liability was not held for sale at September 30, 2017. Of the \$108 restructuring liability at September 30, 2017, \$24 was included in accrued liabilities and \$84 was included in long-term liabilities in the consolidated balance sheets. Of the \$0.2 million restructuring liability at December 31, 2016, \$0.1 million was included in accrued liabilities and \$0.1 million was included in long-term liabilities in the consolidated balance sheets.

The following table summarizes the restructuring activity during the nine months ended September 30, 2017 and the status of the reserves at September 30, 2017.

|   | <b>December 31, 2016</b> | <b>Expenses/ Adjustments</b> | <b>Cash</b>      |                    | <b>September 30, 2017</b> |
|---|--------------------------|------------------------------|------------------|--------------------|---------------------------|
|   |                          |                              | <b>Payments/</b> | <b>Adjustments</b> |                           |
| Severance and related employee benefits | \$ 6                     | \$ (1)                       | \$ (5)           | \$ 0               |                           |
| Lease terminations                      | 190                      | 9                            | (91)             | 108                |                           |
| <b>Total</b>                            | <b>\$ 196</b>            | <b>\$ 8</b>                  | <b>\$ (96)</b>   | <b>\$ 108</b>      |                           |

### **Operating Leases**

The Company has operating leases for facilities through 2024 and office equipment through 2021. The future minimum rental payments under these leases at September 30, 2017, are as follows:

| <u>Year</u>                   | <u>Amount</u>   |
|-------------------------------|-----------------|
| 2017                          | \$ 276          |
| 2018                          | 1,085           |
| 2019                          | 1,056           |
| 2020                          | 470             |
| Thereafter                    | 456             |
| Future minimum lease payments | <u>\$ 3,343</u> |

The rent expense under leases was approximately \$0.2 million for the three months ended September 30, 2017, and 2016, respectively. The rent expense under leases was approximately \$0.7 million for the nine months ended September 30, 2017, and 2016, respectively.

### **Operating Leases - Continuing Operations**

In June 2016, the Company entered into a new four-year lease for its Beijing Design Center and in January 2017 the Company signed a new lease for additional space at the same location. With the expansion, the Company has 11,270 square feet in its Beijing Design Center. The total lease obligation pursuant to agreement for the expansion was \$0.4 million. The Beijing Design Center has an engineering department for antenna development as well as sales and marketing for the China market.

In April 2017, the Company renewed the first-floor space of Tianjin facility with 22,120 square feet of leased space. The total lease obligation as of September 30, 2017 pursuant to the agreement was \$35 and expires on April 11, 2018.

In August 2017, the Company entered into a new seven-year lease for 5,977 square feet of office space in Akron, Ohio for antenna product development. The total lease obligation pursuant to the agreement was \$0.7 million with a scheduled commencement date of January 1, 2018.

### **Operating Leases- Discontinued Operations**

During the first quarter 2016, the Company exited from its Colorado office in order to consolidate facility space related to its Engineering Services reporting unit. In May 2017, the Company signed a sublease with a term through the lease termination date. The lease expires on October 31, 2020 and the Company's remaining lease obligation to the landlord as of September 30, 2017 was \$0.4 million. See discussion related to the Colorado offices in the restructuring section of this footnote.

As part of the sale of the Engineering Services business to Gabe's on July 31, 2017, Gabe's assumed the lease of the Company's office space in Melbourne, Florida through the end of the lease period. The lease expires on December 31, 2018 and the remaining lease obligation as of the transaction date with Gabe's was \$78.

### **Capital Leases**

The Company has capital leases for office and manufacturing equipment. The net book values for assets under capital leases were as follows:

|                          | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|---------------------------|--------------------------|
| Cost                     | \$ 453                    | \$ 324                   |
| Accumulated Depreciation | (172)                     | (105)                    |
| Net Book Value           | <u>\$ 281</u>             | <u>\$ 219</u>            |

The following table presents future minimum lease payments under capital leases together with the present value of the net minimum lease payments due in each year:

| <u>Year</u>                                  | <u>Amount</u> |
|--|---------------|
| 2017   | \$ 26         |
| 2018   | 104           |
| 2019   | 87            |
| 2020   | 47            |
| Thereafter                                   | 47            |
| Total minimum payments required:             | 311           |
| Less amount representing interest:           | 21            |
| Present value of net minimum lease payments: | <u>\$ 290</u> |

#### **Warranty Reserve and Sales Returns**

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company accrues for product returns based on historical sales and return trends. The Company's allowance for product returns was \$0.2 million at September 30, 2017 and December 31, 2016, respectively, and is included within accounts receivable on the accompanying condensed consolidated balance sheet.

The Company offers repair and replacement warranties of up to five years for certain antenna products and scanning receiver products. The Company's warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was \$0.4 million at September 30, 2017 and December 31, 2016, respectively, and is included in other accrued liabilities in the accompanying condensed consolidated balance sheets.

|                           | <u>Nine Months Ended September 30,</u> |               |
|---------------------------|--|---------------|
|                           | <u>2017</u>                            | <u>2016</u>   |
| Beginning balance         | \$ 394                                 | \$ 348        |
| Provisions for warranties | 99                                     | 57            |
| Consumption of reserves   | (75)                                   | (86)          |
| Ending balance            | <u>\$ 418</u>                          | <u>\$ 319</u> |

#### **11. Income Taxes**

The Company recorded an income tax benefit of \$0.1 million in continuing operations for the nine months ended September 30, 2017 and income tax expense of \$6.6 million in continuing operations for the nine months ended September 30, 2016. The benefit recorded for the nine months ended September 30, 2017 differed from the statutory rate of 34% primarily due to the combination of U.S. pretax losses and foreign pretax profits taxed at lower rates. The net tax benefit for the nine months ended September 30, 2017 included income tax expense of \$0.2 million related to tax deficiencies with restricted stock and stock options in accordance with recently adopted accounting standards and \$0.1 million income tax benefit related to previously unrecognized tax benefits for research credits. The income tax expense for the nine months ended September 30, 2016 included a \$7.6 million adjustment to the valuation allowance for deferred tax assets.

The Company had deferred tax assets net of deferred tax liabilities of \$5.3 million and \$4.5 million at September 30, 2017 and December 31, 2016, respectively, virtually all of which are related to the United States tax jurisdiction. On January 1, 2017 in accordance with the new accounting standards for stock compensation, the Company recorded an increase of \$0.7 million to deferred tax assets to account for tax benefits related to stock compensation previously unrecognized and for forfeitures previously recorded for restricted stock and stock options with a corresponding increase of \$0.2 million to its valuation allowance. The adjustment to the valuation allowance was based on the same assumptions used to adjust the valuation allowance in 2016 which are still applicable for the three months ended September 30, 2017.

The Company's valuation allowance against its deferred tax assets was \$13.5 million at September 30, 2017 and \$13.3 million at December 31, 2016. The valuation allowance at September 30, 2017 and December 31, 2016 is primarily because the Company does not believe it will generate sufficient US taxable income to realize a significant portion of its deferred tax assets. On a regular basis, the Company evaluates the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. The Company considers multiple factors in its evaluation of the need for a valuation allowance. The Company's domestic deferred tax assets have a ratable reversal pattern over 15 years. The carry forward rules allow for up to a 20 year carry forward of net operating losses ("NOL") to future income that is available to realize the deferred tax assets. The



combination of the deferred tax asset reversal pattern and carry forward period yields a 27.0 year average period over which future income can be utilized to realize the deferred tax assets. The sale of the Company's Engineering Services business did not have a significant impact on the Company's long-term projections for U.S. taxable income. Therefore, there was no adjustment to the valuation allowance related to discontinued operations.

During 2016, the Company adjusted the valuation allowance by \$12.6 million as income tax expense. During the second quarter 2016, there were two significant changes in the deferred tax asset recoverability evidence pattern. The cumulative three-year US book income turned to a loss. In addition, the Company experienced a significant shift in its Connected Solutions segment revenue to products that are designed, manufactured and sold through the Company's China subsidiary directly into China. This will cause a significant shift going forward in the Company's tax profitability from the United States to China. The Company believes this is the beginning of a long-term trend. The Company completed a recapitalization of its China subsidiary to accommodate the initial working capital growth required to support the shift and continues to anticipate permanently reinvesting future earnings and profits from its China subsidiary in China to support its future working capital needs there. The Company re-forecasted its long term domestic profitability in light of the shift in business to China that is occurring. The Company recorded an adjustment to the valuation allowance of \$7.6 million at September 30, 2016.

In the fourth quarter 2016, the Company updated its projections for its analysis to determine the valuation allowance. The Company reduced its domestic profit forecast because it lowered its long-term forecast for its services business and increased the contribution of the profits from its China subsidiary. The Company also updated its estimated tax deductions. Based on assigned probabilities to each scenario, the Company recorded an additional adjustment to the valuation allowance of \$5.0 million at December 31, 2016.

The analysis that the Company prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. The Company used a series of projections bound on the low side by what it would take for none of its deferred tax assets to be realized and on the high side by what it would take for all of the deferred tax assets to be realized. The Company assigned probabilities to each scenario to calculate a weighted average valuation allowance. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance.

The Company's gross unrecognized tax benefit was \$0.7 million at September 30, 2017 and \$0.9 million at December 31, 2016.

The Company files a consolidated federal income tax return, income tax returns with various states, and foreign income tax returns in various foreign jurisdictions. For U.S. federal income tax purposes 2015 and subsequent periods are subject to examination by the IRS. For state income tax purposes, 2012 and subsequent periods are generally subject to examination by various state taxing authorities.

## **12. Segment, Customer and Geographic Information – Continuing Operations**

PCTEL operates in two segments for reporting purposes. The Company's Connected Solutions segment includes its antenna and engineered site solutions. Its RF Solutions segment includes its scanning receivers and other test tools. Each of the segments has its own segment manager as well as its own engineering, sales and marketing, and operational general and administrative functions. All of the Company's accounting and finance, human resources, IT and legal functions are provided on a centralized basis through the corporate function. The Company manages its balance sheet and cash flows centrally at the corporate level, with the exception of inventory which is managed at the segment level. Each of the segment managers reports to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The Company's chief operating decision maker uses operating profits and identified assets for Connected Solutions and RF Solutions segments to make operating decisions.

The following tables are the segment operating profits and cash flow information in continuing operations for the three months ended September 30, 2017 and 2016, respectively, and the segment balance sheet information as of September 30, 2017 and December 31, 2016:

|  | Three Months Ended September 30, 2017 |              |            |           |
|--|---------------------------------------|--------------|------------|-----------|
|  | Connected Solutions                   | RF Solutions | Corporate  | Total     |
| <b>REVENUES</b>  | \$ 17,988                             | \$ 5,739     | \$ (62)    | \$ 23,665 |
| <b>GROSS PROFIT</b>                                      | 6,148                                 | 4,006        | (4)        | 10,150    |
| <b>OPERATING INCOME (LOSS) FOR CONTINUING OPERATIONS</b> | \$ 2,684                              | \$ 883       | \$ (2,674) | \$ 893    |
| Depreciation   | \$ 437                                | \$ 140       | \$ 74      | \$ 651    |
| Intangible amortization                                  | \$ 39                                 | \$ 252       | \$ 0       | \$ 291    |
| Capital expenditures                                     | \$ 437                                | \$ 103       | \$ 13      | \$ 553    |

|  | Nine Months Ended September 30, 2017 |              |            |           |
|--|--------------------------------------|--------------|------------|-----------|
|  | Connected Solutions                  | RF Solutions | Corporate  | Total     |
| <b>REVENUES</b>  | \$ 52,125                            | \$ 16,157    | \$ (146)   | \$ 68,136 |
| <b>GROSS PROFIT</b>                                      | \$ 17,283                            | \$ 11,275    | \$ 8       | \$ 28,566 |
| <b>OPERATING INCOME (LOSS) FOR CONTINUING OPERATIONS</b> | \$ 6,775                             | \$ 2,319     | \$ (8,516) | \$ 578    |
| <b>Depreciation</b>                                      | \$ 1,288                             | \$ 419       | \$ 206     | \$ 1,913  |
| <b>Intangible amortization</b>                           | \$ 117                               | \$ 755       | \$ 0       | \$ 872    |
| <b>Capital expenditures</b>                              | \$ 1,294                             | \$ 388       | \$ 415     | \$ 2,097  |

|                              | As of September 30, 2017 |              |           |           |
|------------------------------|--------------------------|--------------|-----------|-----------|
|                              | Connected Solutions      | RF Solutions | Corporate | Total     |
| Accounts receivable          | \$ 13,243                | \$ 5,287     | \$ 0      | \$ 18,530 |
| Inventories                  | \$ 11,267                | \$ 1,561     | \$ 0      | \$ 12,828 |
| Current assets held for sale | \$ 0                     | \$ 0         | \$ 0      | \$ 0      |
| Long-lived assets:           |                          |              |           |           |
| Property and equipment, net  | \$ 9,905                 | \$ 1,395     | \$ 927    | \$ 12,227 |
| Goodwill                     | \$ 0                     | \$ 3,332     | \$ 0      | \$ 3,332  |
| Intangible assets, net       | \$ 116                   | \$ 2,287     | \$ 0      | \$ 2,403  |
| Deferred tax assets, net     | \$ 0                     | \$ 0         | \$ 5,344  | \$ 5,344  |
| Other noncurrent assets      | \$ 0                     | \$ 0         | \$ 69     | \$ 69     |

|  | Three Months Ended September 30, 2016 |              |            |           |
|--|---------------------------------------|--------------|------------|-----------|
|  | Connected Solutions                   | RF Solutions | Corporate  | Total     |
| <b>REVENUES</b>  | \$ 17,136                             | \$ 3,814     | \$ (58)    | \$ 20,892 |
| <b>GROSS PROFIT</b>                                      | \$ 5,771                              | \$ 2,497     | \$ (13)    | \$ 8,255  |
| <b>OPERATING INCOME (LOSS) FOR CONTINUING OPERATIONS</b> | \$ 2,530                              | \$ (467)     | \$ (2,363) | \$ (300)  |

|                                |        |        |         |        |
|--------------------------------|--------|--------|---------|--------|
| <b>Depreciation</b>            | \$ 484 | \$ 190 | \$ 0    | \$ 674 |
| <b>Intangible amortization</b> | \$ 39  | \$ 252 | \$ 0    | \$ 291 |
| <b>Capital expenditures</b>    | \$ 284 | \$ 16  | \$ (18) | \$ 282 |

|  | Nine Months Ended September 30, 2016 |              |            |            |
|--|--------------------------------------|--------------|------------|------------|
|  | Connected Solutions                  | RF Solutions | Corporate  | Total      |
| <b>REVENUES</b>  | \$ 47,616                            | \$ 13,931    | \$ (164)   | \$ 61,383  |
| <b>GROSS PROFIT</b>                                      | \$ 15,035                            | \$ 9,620     | \$ (7)     | \$ 24,648  |
| <b>OPERATING INCOME (LOSS) FOR CONTINUING OPERATIONS</b> | \$ 5,625                             | \$ 344       | \$ (7,644) | \$ (1,675) |

|                                |          |        |        |          |
|--------------------------------|----------|--------|--------|----------|
| <b>Depreciation</b>            | \$ 1,417 | \$ 577 | \$ 0   | \$ 1,994 |
| <b>Intangible amortization</b> | \$ 153   | \$ 755 | \$ 0   | \$ 908   |
| <b>Capital expenditures</b>    | \$ 1,127 | \$ 90  | \$ 333 | \$ 1,550 |

|                                  | As of December 31, 2016 |              |           |           |
|----------------------------------|-------------------------|--------------|-----------|-----------|
|                                  | Connected Solutions     | RF Solutions | Corporate | Total     |
| Accounts receivable              | \$ 12,731               | \$ 6,370     | \$ 0      | \$ 19,101 |
| Inventories                      | \$ 12,301               | \$ 2,141     | \$ 0      | \$ 14,442 |
| Current assets held for sale     | \$ 0                    | \$ 50        | \$ 0      | \$ 50     |
| Long-lived assets:               |                         |              |           |           |
| Property and equipment, net      | \$ 9,756                | \$ 1,346     | \$ 731    | \$ 11,833 |
| Goodwill                         | \$ 0                    | \$ 3,332     | \$ 0      | \$ 3,332  |
| Intangible assets, net           | \$ 233                  | \$ 3,042     | \$ 0      | \$ 3,275  |
| Deferred tax assets, net         | \$ 0                    | \$ 0         | \$ 4,512  | \$ 4,512  |
| Other noncurrent assets          | \$ 0                    | \$ 0         | \$ 36     | \$ 36     |
| Non-current assets held for sale | \$ 0                    | \$ 776       | \$ 0      | \$ 776    |

All revenues and cost of revenues in continuing operations for the three and nine months ended September 30, 2017 and 2016, respectively relate to products. All the revenues and cost of revenues included in discontinued operations relate to services. See Note 5 for the revenues and cost of revenues in discontinued operations for three and nine months ended September 30, 2017 and 2016, respectively.

### 13. Concentration of Credit Risk

#### Revenue by Geography

The Company's revenue by geographic location, as a percent of total revenues, is as follows:

| Region                        | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|-------------------------------|-------------------------------------|------|------------------------------------|------|
|                               | 2017                                | 2016 | 2017                               | 2016 |
| Asia Pacific                  | 17%                                 | 23%  | 19%                                | 20%  |
| Europe, Middle East, & Africa | 9%                                  | 8%   | 8%                                 | 9%   |
| Other Americas                | 8%                                  | 7%   | 6%                                 | 6%   |
| Total Foreign sales           | 34%                                 | 38%  | 33%                                | 35%  |

### **Concentration of Revenues and Accounts Receivable**

The following tables represents the customer that accounted for 10% or more of revenues during the three and nine months ended September 30, 2017 and 2016 and customers that accounted for 10% or more of total trade accounts receivable at September 30, 2017 and December 31, 2016.

|            | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|------------|-------------------------------------|------|------------------------------------|------|
|            | 2017                                | 2016 | 2017                               | 2016 |
| Customer A | 10%                                 | 11%  | 10%                                | 10%  |

  

|            | September 30, | December 31, |
|------------|---------------|--------------|
|            | 2017          | 2016         |
| Customer A | 7%            | 17%          |
| Customer B | 14%           | 7%           |

### **14. Subsequent Events**

The Company evaluates subsequent events occurring between the most recent balance sheet date and the date that the financial statements are available to be issued in order to determine whether the subsequent events are to be recorded and/or disclosed in the Company's financial statements and footnotes. The financial statements are considered to be available to be issued at the time that they are filed with the SEC. There were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements.

## **Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations – Continuing Operations**

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the consolidated financial statements for the year ended December 31, 2016 contained in our Annual Report on Form 10-K filed on March 15, 2017. Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses and revenue mix. These forward-looking statements include, among others, those statements including the words “may,” “will,” “plans,” “seeks,” “expects,” “anticipates,” “intends,” “believes” and words of similar meaning. Such statements constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. No undue reliance should be placed on these forward-looking statements. Our actual results could differ materially from those projected in these forward-looking statements.

Our third quarter 2017 revenues increased by \$2.8 million, or 13.3% compared to the same period in 2016 due to higher revenues for both RF Solutions and Connected Solutions. We recorded operating income of \$0.9 million for the third quarter 2017 compared to an operating loss of \$0.3 million in the same period in 2016. For the nine months ended September 30, 2017, revenues increased by \$6.8 million, or 11.0% compared to the same period in 2016 due to higher revenues for both RF Solutions and Connected Solutions. We recorded operating income of \$0.6 million for the nine months ended September 30, 2017 compared to an operating loss of \$1.7 million in the same period in 2016. Operating income improved for both the three and nine months ended September 30, 2017 due to the gross profit impact of higher revenues offsetting higher operating expenses.

### **Introduction**

PCTEL delivers Performance Critical Locom technology solutions to the wireless industry. We are a leading global supplier of antenna and wireless network testing solutions. PCTEL Connected Solutions designs and manufactures precision antennas. PCTEL antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for the Industrial Internet of Things (“IIoT”). PCTEL RF Solutions provides test tools that improve the performance of wireless networks globally. Mobile operators, neutral hosts, and equipment manufacturers rely on PCTEL to analyze, design, and optimize next generation wireless networks.

PCTEL operates in two segments for reporting purposes. Our Connected Solutions segment includes our antenna and engineered site solutions and our RF Solutions segment includes our scanning receivers and other test tools. Each segment has its own segment manager as well as its own engineering, sales and marketing, and operational general and administrative functions. All of our accounting and finance, human resources, IT and legal functions are provided on a centralized basis through the corporate function.

Revenue growth for Connected Solutions is driven by the increased use of wireless communications and increased complexity trends occurring in these markets. PCTEL antennas are primarily sold to original equipment manufacturer (“OEM”) providers where they are designed into the customer’s solution. 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.

Revenue growth for RF Solutions is driven by the implementation and roll out of new wireless technology standards (i.e., 1G to 2G, 2G to 3G, 3G to 4G, 4G to 5G, etc.). PCTEL test equipment is sold directly to wireless carriers or to OEM providers who integrate our products into their solution which is then sold to wireless carriers. PCTEL maintains expertise in several technology areas in order to be competitive in the test tool market. These include radio frequency engineering, digital signal processing (“DSP”) engineering, manufacturing, mechanical engineering, product quality and testing, and wireless network engineering.

During the quarter ended June 30, 2017, we approved a plan to sell our Network Engineering Service business (“Engineering Services”) and shift our focus toward research and development driven radio frequency (“RF”) products. On July 31, 2017, we sold substantially all of the assets of the Company’s Engineering Services business to Gabe’s Construction Co., Inc (“Gabe’s”). The Engineering Services business provided design, testing, commissioning, optimization, and consulting services for cellular, Wi-Fi and public safety networks was a reporting unit within the RF Solutions segment. We classified assets of the Engineering Services reporting unit as held for sale at December 31, 2016 and reported the results of its operations as discontinued operations for the three and nine months ended September 30, 2017 and 2016, respectively. The financial information presented in Item 2 has been restated to reflect the historical results of Engineering Services as discontinued operations. See Note 5 in the notes to the financial statements for more information on discontinued operations.

**Results of Operations – Continuing Operations**  
**Three and Nine Months Ended September 30, 2017 and 2016**  
(in thousands)

**Revenues by Segment**

|                            | Three Months Ended September 30, |                  |                 |                |
|----------------------------|----------------------------------|------------------|-----------------|----------------|
|                            | 2017                             | 2016             | \$ Change       | % Change       |
| <b>Connected Solutions</b> | \$ 17,988                        | \$ 17,136        | \$ 852          | 5.0%           |
| <b>RF Solutions</b>        | 5,739                            | 3,814            | 1,925           | 50.5%          |
| <b>Corporate</b>           | (62)                             | (58)             | (4)             | not meaningful |
| <b>Total</b>               | <u>\$ 23,665</u>                 | <u>\$ 20,892</u> | <u>\$ 2,773</u> | <u>13.3%</u>   |

  

|                            | Nine Months Ended September 30, |                  |                 |                |
|----------------------------|---------------------------------|------------------|-----------------|----------------|
|                            | 2017                            | 2016             | \$ Change       | % Change       |
| <b>Connected Solutions</b> | \$ 52,125                       | \$ 47,616        | \$ 4,509        | 9.5%           |
| <b>RF Solutions</b>        | 16,157                          | 13,931           | 2,226           | 16.0%          |
| <b>Corporate</b>           | (146)                           | (164)            | 18              | not meaningful |
| <b>Total</b>               | <u>\$ 68,136</u>                | <u>\$ 61,383</u> | <u>\$ 6,753</u> | <u>11.0%</u>   |

Revenues increased 13.3% and 11.0% for the three and nine months ended September 30, 2017 compared to the same periods in 2016 due to higher revenues for both RF Solutions and Connected Solutions. For the three months ended September 30, 2017, the increase in revenues for RF Solutions contributed 69% of the revenue growth. For the nine months ended September 30, 2017, Connected Solutions contributed 67% of the revenue growth.

Connected Solutions revenues increased 5.0% and 9.5% for the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to increased sales of antennas for fleet and utilities applications. For the three months ended September 30, 2017, revenues were strong for fleet and industrial IoT markets, with shipments to a major public safety OEM for their new radio line; our best quarter to date for deliveries of our rugged multiband antenna for precision agriculture; and increased shipments of our high precision multiband GNSS antennas driven by specialized fleet applications.

RF Solutions revenue increased 50.5% and 16.0% for the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to increased revenue in the North American market. During the nine months ended September 30, 2017, we have added two OEM partners in the US and captured significant scanning receiver business at one of the largest US operators. We also increased international scanning receiver sales.

**Gross Profit by Segment**

|                            | Three Months Ended September 30, |                |                 |                |
|----------------------------|----------------------------------|----------------|-----------------|----------------|
|                            | 2017                             | % of Revenues  | 2016            | % of Revenues  |
| <b>Connected Solutions</b> | \$ 6,148                         | 34.2%          | \$ 5,771        | 33.7%          |
| <b>RF Solutions</b>        | 4,006                            | 69.8%          | 2,497           | 65.5%          |
| <b>Corporate</b>           | (4)                              | not meaningful | (13)            | not meaningful |
| <b>Total</b>               | <u>\$ 10,150</u>                 | <u>42.9%</u>   | <u>\$ 8,255</u> | <u>39.5%</u>   |

  

|                            | Nine Months Ended September 30, |                |                  |                |
|----------------------------|---------------------------------|----------------|------------------|----------------|
|                            | 2017                            | % of Revenues  | 2016             | % of Revenues  |
| <b>Connected Solutions</b> | \$ 17,283                       | 33.2%          | \$ 15,035        | 31.6%          |
| <b>RF Solutions</b>        | 11,275                          | 69.8%          | 9,620            | 69.1%          |
| <b>Corporate</b>           | 8                               | not meaningful | (7)              | not meaningful |
| <b>Total</b>               | <u>\$ 28,566</u>                | <u>41.9%</u>   | <u>\$ 24,648</u> | <u>40.2%</u>   |

The gross profit percentage of 42.9% for the three months ended September 30, 2017 was 3.4% higher than the same period in 2016 and the gross profit percentage of 41.9% for the nine months ended September 30, 2017 was 1.7% higher than the same period in 2016.

The gross profit percentage for Connected Solutions increased 0.5% and 1.6% during the three and nine months ended September 30, 2017 compared to the same periods in 2016 due to leveraging fixed cost of goods sold, as a result of a continuing revenue shift to products earlier in their life cycle, as well as achievement of supply chain efficiencies.

The gross profit percentage for RF Solutions increased 4.3% and 0.7% during the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to leveraging fixed cost of goods sold.

### **Consolidated Operating Expenses**

|                                   | Three Months Ended<br>September 30, |                 | Change | Three Months Ended<br>September 30, |  | % of Revenues |              |
|-----------------------------------|-------------------------------------|-----------------|--------|-------------------------------------|--|---------------|--------------|
|                                   | 2017                                |                 |        | 2016                                |  | 2017          | 2016         |
| Research and development          | \$ 2,757                            | \$ 306          |        | \$ 2,451                            |  | 11.7%         | 11.7%        |
| Sales and marketing               | 3,230                               | 114             |        | 3,116                               |  | 13.6%         | 14.9%        |
| General and administrative        | 3,146                               | 299             |        | 2,847                               |  | 13.3%         | 13.6%        |
| Amortization of intangible assets | 124                                 | 0               |        | 124                                 |  | 0.5%          | 0.6%         |
| Restructuring expenses            | 0                                   | (17)            |        | 17                                  |  | 0.0%          | 0.1%         |
|                                   | <u>\$ 9,257</u>                     | <u>\$ 702</u>   |        | <u>\$ 8,555</u>                     |  | <u>39.1%</u>  | <u>40.9%</u> |
|                                   |                                     |                 |        |                                     |  |               |              |
|                                   | Nine Months Ended<br>September 30,  |                 | Change | Nine Months Ended<br>September 30,  |  | % of Revenues |              |
|                                   | 2017                                |                 |        | 2016                                |  | 2017          | 2016         |
| Research and development          | \$ 8,141                            | \$ 560          |        | \$ 7,581                            |  | 11.9%         | 12.4%        |
| Sales and marketing               | 9,394                               | 324             |        | 9,070                               |  | 13.8%         | 14.8%        |
| General and administrative        | 10,081                              | 1,050           |        | 9,031                               |  | 14.8%         | 14.7%        |
| Amortization of intangible assets | 372                                 | (36)            |        | 408                                 |  | 0.5%          | 0.7%         |
| Restructuring charges             | 0                                   | (233)           |        | 233                                 |  | 0.0%          | 0.4%         |
|                                   | <u>\$ 27,988</u>                    | <u>\$ 1,665</u> |        | <u>\$ 26,323</u>                    |  | <u>41.0%</u>  | <u>43.0%</u> |

### **Research and Development**

Research and development expenses increased approximately \$0.3 million for the three months ended September 30, 2017 compared to the same period in 2016. The increase during the three months ended September 30, 2017 consisted of higher expenses for Connected Solutions of \$0.4 million, offsetting lower expenses for RF Solutions of \$0.1 million compared to the same period in the prior year.

Research and development expenses increased approximately \$0.6 million for the nine months ended September 30, 2017 compared to the same period in 2016. The increase during the nine months ended September 30, 2017 consisted of higher expenses for Connected Solutions of \$1.1 million, offsetting lower expenses for RF Solutions of \$0.5 million compared to the same period in the prior year.

Expenses for Connected Solutions were higher for the three and nine months ended September 30, 2017 compared to the prior year periods due to investments required to support growth areas. Expenses for RF Solutions were lower for the three and nine months ended September 30, 2017 because we reduced headcount in certain product development areas.

### **Sales and Marketing**

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

Sales and marketing expenses increased approximately \$0.1 million for the three months ended September 30, 2017 compared to the same period in 2016 as a result of higher expenses for RF Solutions of \$0.4 million offsetting lower expenses for Connected Solutions of \$0.3 million.

Sales and marketing expenses increased approximately \$0.3 million for the nine months ended September 30, 2017 compared to the same period in 2016 as a result of higher expenses for RF Solutions of \$0.7 million offsetting lower expenses for Connected Solutions of \$0.4 million.

The expense increases for RF Solutions related to commissions, training, and travel to support a growing direct customer base. The expense decreases for Connected Solutions are primarily due to headcount reductions during the first quarter 2017 related to product management, sales, and marketing for Connected Solutions.

#### **General and Administrative**

General and administrative expenses include costs associated with the general management, finance, human resources, information technology (“IT”), legal, public company costs, and other operating expenses to the extent not otherwise allocated to business segments.

General and administrative expenses increased \$0.3 million and \$1.1 million for the three and nine months ended September 30, 2017 compared to the same periods in 2016. The increase for the three months ended September 30, 2017 was comprised of \$0.2 million for the Company’s short-term incentive plan and \$0.1 million for costs related to the CEO transition. The increase of \$1.1 million for the nine months ended September 30, 2017 was due to \$0.4 million for the Company’s short-term incentive plan, \$0.4 million for costs related to the CEO transition, \$0.2 million for legal expenses related to Connected Solutions, and \$0.1 million for other corporate expenses.

#### **Amortization of Intangible Assets**

Amortization expense was the same during the three months ended September 30, 2017 compared to the same period in 2016. For the nine months ended September 30, 2017, amortization expense was lower by \$36 compared to the prior year due to certain intangible assets being fully amortized in 2016.

#### **Restructuring expenses**

During the first quarter 2016, we incurred restructuring expenses of \$0.2 million consisting of employee severance and related employee benefit costs. We reduced engineering headcount in our RF Solutions segment related to completed research and development projects.

#### **Stock-based compensation expense**

The condensed consolidated statements of operations include \$0.7 million and \$2.5 million of stock compensation expense for the three and nine months ended September 30, 2017, respectively. The condensed consolidated statements of operations include \$0.9 million and \$3.2 million of stock compensation expense for the three and nine months ended September 30, 2016, respectively.

|                                    | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |                 |
|------------------------------------|---------------------------|---------------|--------------------------|-----------------|
|                                    | <b>September 30,</b>      |               | <b>September 30,</b>     |                 |
|                                    | <b>2017</b>               | <b>2016</b>   | <b>2017</b>              | <b>2016</b>     |
| Service-based restricted stock     | \$ 612                    | \$ 640        | \$ 2,291                 | \$ 2,368        |
| Employee stock purchase plan       | 50                        | 40            | 138                      | 125             |
| Stock options                      | (1)                       | 34            | 29                       | 145             |
| Stock bonuses                      | 0                         | 264           | 0                        | 431             |
| <b>Total continuing operations</b> | <b>661</b>                | <b>978</b>    | <b>2,458</b>             | <b>3,069</b>    |
| Discontinued operations            | 0                         | (34)          | 49                       | 118             |
| <b>Total</b>                       | <b>\$ 661</b>             | <b>\$ 944</b> | <b>\$ 2,507</b>          | <b>\$ 3,187</b> |



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

|                             | Three Months Ended |      | Nine Months Ended |       |
|-----------------------------|--------------------|------|-------------------|-------|
|                             | September 30,      |      | September 30,     |       |
|                             | 2017               | 2016 | 2017              | 2016  |
| Cost of revenues            | 67                 | 78   | 200               | 219   |
| Research and development    | 128                | 183  | 394               | 525   |
| Sales and marketing         | 117                | 176  | 363               | 477   |
| General and administrative  | 349                | 541  | 1,501             | 1,848 |
| Total continuing operations | 661                | 978  | 2,458             | 3,069 |
| Discontinued operations     | 0                  | (34) | 49                | 118   |
| Total                       | 661                | 944  | 2,507             | 3,187 |

Stock compensation expense was lower for the three and nine months ended September 30, 2017 compared to the same periods in 2016 as our bonuses for our short-term incentive plan are payable in cash for 2017. We recorded \$0.3 million and \$0.4 million related to stock bonuses for executive employees for the three and nine months ended September 30, 2017, respectively.

### Operating Income (Loss) by Segment

|                     | Three Months Ended September 30, |                |          |                |
|---------------------|----------------------------------|----------------|----------|----------------|
|                     | 2017                             | % of Revenues  | 2016     | % of Revenues  |
| Connected Solutions | \$ 2,684                         | 14.9%          | \$ 2,530 | 14.8%          |
| RF Solutions        | 883                              | 15.4%          | (467)    | -12.2%         |
| Corporate           | (2,674)                          | not meaningful | (2,363)  | not meaningful |
| Total               | \$ 893                           | 3.8%           | \$ (300) | -1.4%          |

|                     | Nine Months Ended September 30, |                |            |                |
|---------------------|---------------------------------|----------------|------------|----------------|
|                     | 2017                            | % of Revenues  | 2016       | % of Revenues  |
| Connected Solutions | \$ 6,770                        | 13.0%          | \$ 5,625   | 11.8%          |
| RF Solutions        | 2,324                           | 14.4%          | 344        | 2.5%           |
| Corporate           | (8,516)                         | not meaningful | (7,644)    | not meaningful |
| Total               | \$ 578                          | 0.8%           | \$ (1,675) | -2.7%          |

For the three months ended September 30, 2017, our total operating profit increased by \$1.2 million compared to the same period in 2016 primarily because profits improved for RF Solutions, offsetting higher corporate expenses. For the three months ended September 30, 2017, the operating profit for RF Solutions increased by \$1.4 million primarily because of the gross margin impact of higher revenues. Within the corporate function, expenses were \$0.3 million higher in the three months ended September 30, 2017 due to \$0.1 million for the Company's short-term incentive plan, \$0.1 million for costs related to the CEO transition, and \$0.1 million for other corporate expenses.

Total operating profit increased by \$2.3 million during the nine months ended September 30, 2017 compared to the same period in 2016 as profit improvements for both Connected Solutions and RF Solutions offset higher corporate expenses. For the nine months ended September 30, 2017, the operating profit for RF Solutions increased \$2.0 million as the margin impact of higher revenues offset higher operating expenses. Higher sales and marketing expenses offset lower engineering and general and administrative expenses within the RF Solutions segment. For the nine months ended September 30, 2017, the operating profit for Connected Solutions increased \$1.1 million as higher gross profits offset higher operating expenses. Gross margin was higher because of higher revenues as well as the higher gross margin percentage. Operating expenses were higher due to engineering investments. Within the corporate function, expenses were \$0.7 million higher in the nine months ended September 30, 2017. The increase was due to \$0.3 million for the Company's short-term incentive plan, \$0.3 million for costs related to the CEO transition, and \$0.1 million for other corporate expenses.

**Other Income, Net**

|                         | Three Months Ended |       | Nine Months Ended |       |
|-------------------------|--------------------|-------|-------------------|-------|
|                         | September 30       |       | September 30      |       |
|                         | 2017               | 2016  | 2017              | 2016  |
| Interest income         | \$ 80              | \$ 25 | \$ 181            | \$ 72 |
| Foreign exchange losses | (45)               | 11    | (98)              | (24)  |
| Other, net              | (3)                | (1)   | (9)               | 1     |
| Total                   | \$ 32              | \$ 35 | \$ 74             | \$ 49 |
| Percentage of revenues  | 0.1%               | 0.2%  | 0.1%              | 0.1%  |

Other income, net consists of interest income, foreign exchange gains and losses, and interest expense. Interest income increased during the three and nine months ended September 30, 2017 compared to the prior year due to higher balances of investments and due to higher average interest rates.

**(Benefit) Expense for Income Taxes**

|                                    | Three Months Ended |          | Nine Months Ended |          |
|------------------------------------|--------------------|----------|-------------------|----------|
|                                    | September 30,      |          | September 30,     |          |
|                                    | 2017               | 2016     | 2017              | 2016     |
| (Benefit) expense for income taxes | \$ 206             | \$ (354) | \$ (68)           | \$ 6,603 |
| Effective tax rate                 | 22.3%              | 133.6%   | (10.4)%           | (406.1)% |

We recorded income tax expense of \$0.2 million for the three months ended September 30, 2017 and an income tax benefit of \$0.4 million for the three months ended September 30, 2016. The tax expense recorded for the three months ended September 30, 2017 differed from the statutory rate of 34% by 11.7% due to the combination of U.S. pretax losses and foreign pretax profits taxed at lower rates as well as adjustments to deferred tax assets related to state income tax rates. We recorded an income tax benefit of \$0.1 million for the nine months ended September 30, 2017 and income tax expense of \$6.6 million for the nine months ended September 30, 2016. The tax expense recorded for the nine months ended September 30, 2017 differed from the statutory rate of 34% by 49.4% due to the combination of U.S. pretax losses and foreign pretax profits taxed at lower rates, as well as adjustments to deferred tax assets related to state income tax rates, research credits, and stock compensation. The income tax expense for the nine months ended September 30, 2016 included a \$7.6 million adjustment to the valuation allowance for deferred tax assets.

We maintain valuation allowances due to uncertainties regarding realizability. At September 30, 2017 and December 31, 2016, we had a valuation allowance of \$13.5 million and \$13.3 million, respectively, virtually all of which are related to the United States tax jurisdiction. On a regular basis, we evaluate the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. The valuation allowance at September 30, 2017 and December 31, 2016 is primarily because the Company does not believe it will generate sufficient US taxable income to realize a significant portion of its deferred tax assets.

**Discontinued Operations**

|   | Three Months Ended |       | Nine Months Ended |            |
|---|--------------------|-------|-------------------|------------|
|   | September 30,      |       | September 30,     |            |
|   | 2017               | 2016  | 2017              | 2016       |
| Net income (loss) from discontinued operations, net of income tax | \$ 236             | \$ 86 | \$ (148)          | \$ (4,125) |

During the quarter ended June 30, 2017, we approved a plan to sell our Network Engineering Services business (“Engineering Services”) and shift our focus towards a research and development driven radio frequency (“RF”) products. We sold the business to Gabe’s Construction Co, Inc. (“Gabe’s”) on July 31, 2017. The results for our services business are reporting as discontinued operations for the three and nine months ended September 30, 2017 and 2016. The net income for the three months ended September 30, 2016, included operating income, net of income tax expenses for Engineering Services and the net loss for the nine months ended September 30, 2016 included operating losses, net of income tax benefits. The results for the three and nine months ended September 30, 2017, include operating losses and the net gain on sale of assets to Gabe’s, net of income taxes for Engineering Services.

The net income for the three and nine months ended September 30, 2017 included a pre-tax gain of \$0.5 million related to the sale of Engineering Services assets, offsetting losses from operations. Excluding the gain on the sale of assets, we incurred operating losses in the three months ended September 30, 2017 compared to operating income during the same period in 2016 due to lower revenues. Revenues were low for the three months ended September 30, 2017 because the business was sold as of July 31, 2017. The loss from operations was lower for the nine months ended September 30, 2017 compared to the same period in 2016 because the prior year included impairment expenses of \$4.7 million, \$1.0 million of intangible amortization, and \$0.4 million of restructuring expenses. The impairment expense related to customer relationships. See Note 5 in the consolidated financial statements related to discontinued operations.

### **Liquidity and Capital Resources**

|  | <b><u>Nine Months Ended September 30,</u></b> |                            |
|--|---|----------------------------|
|  | <b><u>2017</u></b>                            | <b><u>2016</u></b>         |
| Net income (loss)  | \$ 720  | \$ (8,229)                 |
| Charges for depreciation, amortization, stock-based compensation, and other non-cash items | 4,891   | 12,419                     |
| Changes in operating assets and liabilities  | 1,465   | 3,687                      |
| Net cash provided by operating activities  | \$ 7,076                                      | \$ 7,877                   |
| Net cash (used in) provided by investing activities  | \$ (13,619)                                   | \$ 5,080                   |
| Net cash used in financing activities  | \$ (2,609)                                    | \$ (6,434)                 |
| Net cash flows from (used in) discontinued operations                                      | \$ 737  | \$ (470)                   |
| Net (decrease) increase in cash  | \$ (8,415)                                    | \$ 6,053                   |
|  | <b><u>September 30,</u></b>                   | <b><u>December 31,</u></b> |
|  | <b><u>2017</u></b>                            | <b><u>2016</u></b>         |
| Cash and cash equivalents at the end of period   | \$ 6,527                                      | \$ 14,855                  |
| Short-term investments at the end of period  | \$ 29,979                                     | \$ 18,456                  |
| Working capital at the end of period   | \$ 56,911                                     | \$ 55,152                  |

### **Liquidity and Capital Resources Overview**

At September 30, 2017, our cash, cash equivalents and investments were approximately \$36.5 million, and we had working capital of \$56.9 million. Our primary source of liquidity is cash provided by operations, with short-term swings in liquidity supported by a significant balance of cash and short-term investments. The balance has fluctuated with cash from operations, acquisitions and divestitures, payment of dividends 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 2.0% and 5.0% of our revenues and the primary use of capital is for manufacturing and development engineering requirements. Our capital expenditures during the nine months ended September 30, 2017 was 3.1% of revenues. We historically have significant transfers between investments and cash as we rotate our large cash balances 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 with acquisitions of product lines or companies, resulting in significant uses of our cash and short-term investment balances from time to time. We expect the historical trend for capital spending and the variability caused by moving money between cash and investments 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 the Employee Stock Purchase Plan (“ESPP”), and have historically used funds to repurchase shares of our

common stock through our share repurchase programs. We pay quarterly dividends and have reinstated a stock repurchase program, although we do not presently have authority to make additional stock repurchases. Our stock price is the determining factor as to whether financing activities result in our being a net user of funds versus a net generator of funds. Management believes that our current financial position, which includes \$36.5 million in cash and investments and no debt, combined with our historic ability to generate free cash flow (cash flow from operations less capital spending) provide adequate liquidity and working capital to support our operations.

#### Operating Activities:

Operating activities provided \$7.0 million of cash during the nine months ended September 30, 2017. We generated \$5.6 million of cash from our income statement activities and \$1.5 million of cash from our balance sheet activities. From the balance sheet activities, we generated cash of \$0.7 million from decreases in accounts receivable and \$1.8 million from reductions in inventories, and used cash of \$0.4 million from reductions in accrued liabilities and \$1.1 million from reductions in accounts payable. Inventories declined during the nine months ended September 30, 2017 for both Connected Solutions and RF Solutions due to process improvements related to purchasing and forecasting, as well as a decrease in revenues for the three months ended September 30, 2017 compared to the three months ended December 31, 2016. Accounts receivables declined during the nine months ended September 30, 2017 due to the decrease in revenues for the three months ended September 30, 2017 compared to the three months ended December 31, 2016. In total, accrued liabilities and accounts payable were lower by \$1.1 million due to the reduction in amounts due for inventory purchases.

Operating activities provided \$7.9 million of cash during the nine months ended September 30, 2016 as we generated \$3.7 million of cash from our balance sheet activities and \$4.2 million of cash from our income statement activities. We generated cash of \$2.9 million from decreases in accounts receivable and \$2.8 million from reductions in inventories. The contraction of accounts receivable was primarily due to lower sequential revenues. Revenues for the three months ended September 30, 2016 were \$1.5 million lower than the three months ended December 31, 2015. Inventories declined for both Connected Solutions and RF Solutions due lower revenues as well as process improvements related to purchasing and forecasting. The \$1.4 million reduction in accounts payable correlated to the reduction in inventories. The tax payments related to our stock issued for restricted stock awards.

#### Investing Activities:

Our investing activities used \$13.6 million of cash during the nine months ended September 30, 2017. During the nine months ended September 30, 2017, redemptions and maturities of our short-term investments provided \$26.1 million in funds and we rotated \$37.6 million of cash into new short-term investments. We used \$2.1 million for capital expenditures during the nine months ended September 30, 2017. Capital expenditures include \$0.6 million for a new IP phone and communications system.

Our investing activities generated \$5.1 million of cash during the nine months ended September 30, 2016. During the nine months ended September 30, 2016, redemptions and maturities of our short-term investments provided \$54.2 million in funds and we rotated \$47.6 million of cash into new short-term investments. We used \$1.6 million for capital expenditures during the nine months ended September 30, 2016. During the nine months ended September 30, 2016, we used capital for facility expansion and upgrades at our Tianjin facility.

#### Financing Activities:

We used \$2.6 million in cash for financing activities during the nine months ended September 30, 2017. We used \$2.7 million for cash dividends paid in February, May and August 2017. We received \$1.4 million in proceeds from the purchase of shares through our ESPP and stock option exercises. We used \$1.2 million for payroll taxes related to stock-based compensation. The tax payments related to our stock issued for restricted stock awards.

We used \$6.4 million in cash for financing activities during the nine months ended September 30, 2016. We used \$4.1 million to repurchase shares in the stock repurchase program and \$2.6 million for cash dividends paid in each of the first three quarters. We received \$0.6 million in proceeds from the purchase of shares through our ESPP. We used \$0.4 million for payroll taxes related to stock-based compensation.

#### Discontinued Operations

We used \$0.7 million in operating activities for the nine months ended September 30, 2017 due to losses from the operations because of low revenues. Our investing activities of \$1.4 million included \$1.45 million in proceeds from the sale of Network Engineering Services to Gabe's. We used \$0.3 million in operating activities for the nine months ended September 30, 2016 due to losses from operations due to the negative impact of high fixed costs. We used \$0.1 million in investing activities during the nine months ended September 30, 2016 due to capital expenditures.

#### Contractual Obligations and Commercial Commitments

As of September 30, 2017, we had operating lease obligations of approximately \$3.3 million through 2024, primarily for facility leases. Our lease obligations were \$3.0 million at December 31, 2016. In May 2017, we executed a sublease of our office space in

Colorado. The restructuring liability at September 30, 2017 reflects the outstanding lease liability net of the expected sublease payments.

We had purchase obligations of \$5.8 million and \$5.3 million at September 30, 2017 and December 31, 2016, respectively. These obligations are for the purchase of inventory, as well as for other goods and services in the ordinary course of business, and exclude the balances for purchases currently recognized as liabilities on the balance sheet.

We had capital lease obligations of \$0.3 million through 2022 for office equipment. The lease obligation for capital leases was \$0.2 million at December 31, 2016.

We had a liability of \$0.7 million and \$0.9 million related to income tax uncertainties at September 30, 2017 and December 31, 2016, respectively. We do not know the timing of the settlement of this liability.

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

We use certain critical accounting policies as described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2016 (the “2016 Annual Report on Form 10-K”). There have been no material changes in any of our critical accounting policies since December 31, 2016. See Note 2 in the footnotes to the Condensed Consolidated Financial Statements for discussion on recent accounting pronouncements.

### **Item 3: Quantitative and Qualitative Disclosures about Market Risk**

See our 2016 Annual Report on Form 10-K (Item 7A). As of November 9, 2017, there have been no material changes in this information.

### **Item 4: Controls and Procedures**

#### **Changes in Internal Controls:**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within time periods specified in the Securities and Exchange Commission rules and forms. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II Other Information

### Item 1: Legal Proceedings

None.

### Item 1A: Risk Factors

#### Factors That May Affect Our Business, Financial Condition and Future Operating Results

See our 2016 Annual Report on Form 10-K (Item 7A). As of November 9, 2017, there have been no material changes in this information.

### Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3: Defaults Upon Senior Securities

None.

### Item 4: Mine Safety Disclosures

Not applicable.

### Item 5: Other Information

None.

### Item 6: Exhibits

| Exhibit No. | Description |
|-------------|-------------|
|-------------|-------------|

|      |   |
|------|---|
| 10.1 | <a href="#"><u>Asset Purchase Agreement, dated July 31, 2017, by and between PCTEL and Gabe's Construction Co., Inc. (Incorporated by reference to Exhibit Number 10.0 filed with the Registrant's Current Report on Form 8-K filed on August 4, 2017</u></a> |
|------|---|

|       |  |
|-------|--|
| 31.1* | <a href="#"><u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a> |
|-------|--|

|       |  |
|-------|--|
| 31.2* | <a href="#"><u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a> |
|-------|--|

|        |  |
|--------|--|
| 32.1** | <a href="#"><u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a> |
|--------|--|

|      |  |
|------|--|
| 101* | The following materials from PCTEL, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Balance Sheet, (iii) the Unaudited Condensed Consolidated Statement of Stockholders' Equity, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements |
|------|--|

\* filed herewith

\*\* furnished herewith

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

PCTEL, Inc.  
a Delaware corporation

/s/ David A. Neumann  
David A. Neumann  
Chief Executive Officer

Date: November 9, 2017

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

I, David A. Neumann, certify that:

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

Date: November 9, 2017

/s/ David A. Neumann  
David A. Neumann  
Chief Executive Officer



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

I, John Schoen, certify that:

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

Date: November 9, 2017

/s/ John Schoen  
John Schoen  
Chief Financial Officer

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

I, David A. Neumann, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of PCTEL, Inc. for the quarterly period ended September 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc. A signed original of this written statement required by Section 906 has been provided to PCTEL, Inc. and will be retained by PCTEL, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DATE: November 9, 2017

By: /s/ David A. Neumann  
NAME: DAVID A. NEUMANN  
Title: Chief Executive Officer

I, John Schoen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of PCTEL, Inc. for the quarterly period ended September 30, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc. A signed original of this written statement required by Section 906 has been provided to PCTEL, Inc. and will be retained by PCTEL, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DATE: November 9, 2017

By: /s/ John Schoen  
NAME: JOHN SCHOEN  
Title: Chief Financial Officer

