

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PC-Tel, Inc.
(Exact Name of Registrant as Specified in Its Charter)

| | | |
|---|--|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 3661 (Primary Standard Industrial Classification Code Number) | 77-0364943 (I.R.S. Employer Identification Number) |
|---|--|---|

70 Rio Robles
San Jose, California 95134
(408) 965-2100
(Address, including zip code, and telephone number, including area code, of
Registrant's principal executive offices)

PETER CHEN
Chief Executive Officer
PC-Tel, Inc.
70 Rio Robles
San Jose, California 95134
(408) 965-2100

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copies to:

| | |
|----------------------------------|---------------------------------|
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| Wilson Sonsini Goodrich & Rosati | Spear Street Tower |
| Professional Corporation | One Market |
| 650 Page Mill Road | San Francisco, California 94105 |
| Palo Alto, California 94304 | (415) 442-0900 |
| (650) 493-9300 | |

Approximate date of commencement of proposed sale to the public: As soon as
practicable after the effective date of this Registration Statement

If any of the securities being registered on this form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, check the following box. ☐

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following
box and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434,
please check the following box. ☐

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee(1) |
|--|-------------------------------|--|--|-------------------------------------|
| Common Stock, \$0.001 par value..... | 5,290,000 shares | \$16.00 | \$84,640,000 | \$23,530 |

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) promulgated under the Securities Act of 1933, as amended.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

+++++The information in this prospectus is not complete and may be changed without +
+notice. PC-Tel, Inc. may not sell these securities until the registration +
+statement filed with the Securities and Exchange Commission is effective. +
+This prospectus is not an offer to sell these securities, and PC-Tel, Inc. is +
+not soliciting offers to buy these securities, in any jurisdiction where the +
+offer or sale of these securities is not permitted. +
+++++PROSPECTUS (Not Complete)
Issued , 1999

4,600,000 Shares

[Pctel LOGO APPEARS HERE}

PC-Tel, Inc.

Common Stock

PC-Tel, Inc. is offering shares of its common stock in an initial public offering. We estimate that the initial public offering price for our shares will be between \$15.00 and \$17.00.

We will apply to have our common stock quoted on the Nasdaq National Market under the symbol "PCTI."

Investing in the common stock involves a high degree of risk. See "Risk Factors" beginning on page 8.

| | Per Share | Total |
|--|-----------|-------|
| | ----- | ----- |
| Public Offering Price..... | \$ | \$ |
| Discounts and Commissions to Underwriters..... | \$ | \$ |
| Proceeds to PC-Tel, Inc..... | \$ | \$ |

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

PC-Tel, Inc. has granted the underwriters the right to purchase up to an additional 690,000 shares of common stock to cover any over-allotments. The underwriters can exercise this right at any time within thirty days after the offering. Banc of America Securities LLC expects to deliver the shares of common stock to investors on , 1999.

Banc of America Securities LLC

Warburg Dillon Read LLC

Needham & Company, Inc.

The date of this prospectus is , 1999

Inside front cover

Background of space shot photograph of planet earth and graphic images of telephone, laptop computer, desktop computer, wireless modem, personal digital assistant and set-top box. Text caption "High-Speed Personal Connecting Communications Solutions."

You should only rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

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PC-Tel, the PC-Tel logo, HSP Modem, MicroModem, HIDRA and LiteSpeed are trademarks of PC-Tel. Other service marks, trademarks and trade names referred to in this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary is not complete and may not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully before making an investment decision.

This prospectus contains forward-looking statements, which involve risks and uncertainties. PC-Tel's actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors described under "Risk Factors" and elsewhere in this prospectus.

PC-Tel

We are a leading developer and supplier of cost-effective software-based connectivity solutions. Our solutions enable Internet access and other communications applications through existing analog and emerging broadband networks. We have developed a proprietary software architecture that substantially reduces the hardware, space and power requirements of conventional hardware-based connectivity devices. Our software architecture is easily upgradeable, minimizing the risk of technological obsolescence. Our communications products are designed to enable widespread Internet access and other communication applications through desktop PCs, notebook computers, Internet appliances such as set-top boxes and webphones, video game consoles and remote monitoring devices.

We are a pioneer in developing host signal processing technology, a proprietary set of algorithms that enables cost-effective software-based digital signal processing solutions. Host signal processing technology utilizes the computational and processing resources of a host central processing unit rather than requiring additional special-purpose hardware. The reduction of hardware components in our architecture reduces space requirements by 50% and power requirements by 70% compared to conventional solutions. The first implementation of our host signal processing technology was in a software modem, or soft modem, in 1995. Through June 1999, we have shipped 11.3 million soft modems. Based on our 1998 unit shipments, we believe we are the largest worldwide producer of soft modems, representing 68% of all soft modems sold that year, as estimated by Vision Quest 2000. We also believe that in 1998 we sold 6% of all analog modems, estimated by Dataquest to have been 59.1 million units. Various OEMs, including Acer, Dell, emachines, Fujitsu and Sharp, have integrated our soft modems into their products.

In recent years, dramatic increases in business and consumer demand for multimedia information, entertainment and voice and data communication have resulted in a corresponding increase in demand for high-speed remote access. The accelerated growth of content-rich applications, which demand high bandwidth, has changed the nature of information networks. High-speed connectivity is now an ordinary requirement for business, government, academic and home environments. These market trends have resulted in a significant increase in the demand for connectivity devices. International Data Corporation estimates that by 2003, the number of Internet connectivity devices in use will grow to over 722 million.

Our host signal processing architecture allows us to quickly and cost-effectively capitalize on this rapid growth in demand for connectivity devices. We believe that we can use our intellectual property portfolio to readily adapt to the speed and design requirements of additional emerging connectivity technologies. For example, we have developed LiteSpeed, a host signal processing architecture solution, in response to growing market acceptance of G.Lite, a digital subscriber line, or DSL, technology that enables downstream data transmission speeds of up to 1.5 Mbps and upstream data transmission speeds of 512 Kbps over existing copper telephone lines. Our G.Lite technology is completely compatible with analog transmission networks, offering the user complete flexibility in choosing access technology and transmission speed. By providing connectivity solutions that can be easily adapted to new standards and protocols, we reduce interoperability obstacles, which simplifies purchasing decisions and accelerates deployment times for OEMs.

To extend our position as the leading provider of cost-effective software-based connectivity solutions, our strategy includes the following key elements:

- . identify emerging high-growth communications technologies and develop innovative software-based connectivity solutions to capitalize on these new market opportunities as they gain acceptance,
- . enhance the scope of our host signal processing technology to further reduce the number of hardware components in our software-based solutions,
- . develop innovative products based on our host signal processing architecture that enable migration to emerging broadband communications technologies for next generation devices,
- . extend our intellectual property leadership position and establish industry standards through rapid internal product development, strategic acquisitions and licensing of innovative communications technology, and
- . license our proprietary digital signal processing communications applications in non-PC devices to provide enhanced performance and cost savings.

Our principal executive offices are located at 70 Rio Robles, San Jose, California 95134. Our telephone number is (408) 965-2100.

The Offering

| | |
|---|--|
| Common stock offered by PC-Tel..... | 4,600,000 shares |
| Common stock to be outstanding after this offering..... | 15,602,078 shares |
| Use of proceeds..... | \$15.7 million of the proceeds from this offering will be used to repay bank debt. The remaining proceeds will be used for general corporate purposes, including working capital, and for potential investments in and acquisitions of complementary products, technologies or businesses. |
| Proposed Nasdaq National Market symbol..... | PCTI |

In addition to the shares of common stock to be outstanding after this offering, we are obligated to issue shares of our common stock upon exercise of outstanding options and warrants. As of June 30, 1999 these additional shares included:

- . a total of 3,815,710 shares of common stock issuable upon exercise of outstanding stock options under our 1995 stock plan and 1997 stock plan at a weighted average exercise price per share of \$5.72, and
- . a total of 202,417 shares of common stock issuable upon exercise of outstanding warrants at an exercise price of \$8.00 per share.

In addition, during the period between July 1 and August 3, 1999, we granted additional stock options under our 1997 stock plan for the purchase of 565,390 shares. This includes options to purchase 400,000 shares of common stock granted to William F. Roach, our President and Chief Operating Officer, who began employment with PC-Tel in August 1999.

Please also note that, except where otherwise indicated:

- . the information in this prospectus relating to our outstanding shares of common stock or options or warrants to purchase our common stock is based upon information as of June 30, 1999,
- . the information in this prospectus reflects the conversion of all of our outstanding shares of preferred stock into 8,510,748 shares of common stock upon the closing of this offering,
- . the information in this prospectus assumes no exercise of the underwriters' over-allotment option, and
- . in this prospectus, "PC-Tel," "we," "us" and "our" refer to PC-Tel, Inc. and its subsidiaries.
- . all shares referred to in this prospectus reflect a 3 for 2 reverse stock split that we effected on October 4, 1995.

Summary Consolidated Financial Information

You should read the following summary consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto included elsewhere in this prospectus. The adjusted balance sheet data as of June 30, 1999 reflects the application of the net proceeds from the sale of the 4,600,000 shares of common stock offered by PC-Tel at an assumed offering price of \$16.00 per share, after deducting estimated offering expenses and underwriting discounts and commissions. Had this offering closed on June 30, 1999, \$16.0 million of the proceeds would have been used to repay bank debt. The adjusted balance sheet data as of June 30, 1999 also reflects the write-off of deferred debt issuance costs and the expense of the prepayment penalty related to the bank debt.

| | Period From February 10, 1994 (inception) to December 31, 1994 | Year Ended December 31, | | | | Six Months Ended June 30, | |
|--|---|-------------------------|----------|----------|----------|------------------------------|-----------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| (in thousands, except per share data) | | | | | | | |
| Statement of Operations | | | | | | | |
| Data: | | | | | | | |
| Revenues..... | \$ -- | \$ 191 | \$16,573 | \$24,009 | \$33,004 | \$ 12,343 | \$ 33,046 |
| Gross profit..... | -- | 85 | 7,391 | 11,085 | 19,126 | 6,395 | 16,049 |
| Income (loss) from operations..... | (283) | (1,127) | 3,882 | 2,957 | 228 | 732 | 4,454 |
| Net income (loss)..... | (280) | (1,093) | 3,004 | 2,301 | 495 | 683 | 2,704 |
| Basic earnings per share..... | \$ -- | \$ -- | \$ 4.79 | \$ 1.13 | \$ 0.21 | \$ 0.29 | \$ 1.10 |
| Diluted earnings per share..... | \$ -- | \$ -- | \$ 0.29 | \$ 0.20 | \$ 0.04 | \$ 0.06 | \$ 0.21 |
| Shares used in computing basic earnings per share..... | -- | -- | 627 | 2,032 | 2,355 | 2,320 | 2,461 |
| Shares used in computing diluted earnings per share..... | -- | -- | 10,280 | 11,645 | 12,325 | 12,400 | 12,638 |

June 30, 1999

Adjusted for
Actual the offering

(in thousands)

| | | |
|---|----------|----------|
| Balance Sheet Data: | | |
| Cash and short-term investments..... | \$23,534 | \$74,182 |
| Total assets..... | 50,483 | 99,661 |
| Long-term debt, net of current portion..... | 13,630 | -- |
| Total stockholders' equity..... | 17,861 | 83,113 |

See Note 2 of Notes to the Consolidated Financial Statements for an explanation of the shares used in computing basic earnings per share and shares used in computing diluted earnings per share in the above table.

RISK FACTORS

Before you invest in our common stock, you should carefully consider the various risks, including those described below, together with all of the other information included in this prospectus. Additional risks and uncertainties not presently known to us or that we currently consider to be immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition or operating results could be adversely affected. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our sales are concentrated among a limited number of customers and the loss of one or more of these customers could negatively affect our operating results.

Our sales are concentrated among a limited number of customers. If we were to lose one or more of these customers, or if one or more of these customers were to delay or reduce purchases of our products, our financial performance could be adversely affected. For the six months ended June 30, 1999, approximately 81% of our revenues were generated by five of our customers, and revenues derived from sales to Talent Trade Asia, TriGem and Silicon Application Corporation accounted for 42%, 20% and 10%, respectively, of our product sales. For the year ended December 31, 1998, approximately 60% of our revenues were generated by five of our customers, and revenues derived from sales to Silicon Application Corporation, BTC, Askey Computer and Zoltrix accounted for 15%, 13%, 12% and 12%, respectively, of our product sales. These customers may in the future decide not to purchase our products at all, purchase fewer products than they did in the past or alter their purchasing patterns, because:

- . we do not have any long term purchase arrangements or contracts with these or any of our other customers,
- . our product sales to date have been made primarily on a purchase order basis, which permit our customers to cancel, change or delay product purchase commitments with little or no notice and without penalty, and
- . many of our customers also have pre-existing relationships with current or potential competitors which may affect our customers' purchasing decisions.

We expect that a small number of customers will continue to account for a substantial portion of our revenues for the foreseeable future and that a significant portion of our sales will continue to be made on the basis of purchase orders.

We have been sued by Motorola for patent infringement. If this litigation resolves unfavorably to us, our business is likely to be harmed.

In September 1998, Motorola, Inc. filed a patent infringement lawsuit against PC-Tel and another modem manufacturer in the U.S. District Court for the District of Massachusetts. Motorola's complaint alleges that we are, and have been, infringing seven Motorola patents by making, using, offering to sell, selling and/or importing products that embody or use the inventions claimed in its patents. In addition to alleging direct infringement, Motorola's complaint includes allegations of inducing infringement and contributory infringement. Motorola's complaint seeks damages and also asks the court to award a preliminary and permanent injunction to prevent us from continuing acts of direct infringement, inducing infringement and contributory infringement. Motorola's complaint contains a demand for Motorola's costs, expenses and reasonable attorney's fees and treble damages for willful infringement. Six of the seven patents asserted by Motorola relate to communications standards accepted by the International Telecommunications Union, or ITU. Any patents incorporating communications standards accepted by the ITU are required to be made available for licensing by the holder of the patent on terms that are fair, reasonable and non-discriminatory. The seventh

Motorola patent, entitled "Processor Modem," allegedly relates to software modem technology. Motorola subsequently dismissed its Massachusetts lawsuit without prejudice and re-filed its complaint in the U.S. District Court for the District of Delaware.

We answered Motorola's complaint denying infringement of Motorola's seven patents and alleging the patents are invalid and unenforceable. We also asserted counter-claims asserting tort and breach of contract claims and violations of the antitrust and unfair competition laws. Our counter-claims and defenses are based in part on Motorola's refusal to license its ITU-related patents to us at fair, reasonable and non-discriminatory rates, as required by the ITU. Our counter-claims also allege that Motorola intentionally interfered with our actual and potential customer relationships.

In response to Motorola's lawsuit, we filed a patent infringement suit against Motorola in the U.S. District Court for the District of Delaware. We have since amended our first complaint against Motorola to include allegations that Motorola is, and has been, infringing, inducing infringement and contributorily infringing ten of our patents. In our complaint, we have asked the court to award similar relief to that requested by Motorola in its lawsuit, including a preliminary and permanent injunction, damages, costs, expenses, reasonable attorneys' fees and treble damages for willful infringement. Our ten patents asserted against Motorola include patents related to ITU standards, software and other modem technology.

Discovery is underway and trial is set for early 2001 in both Motorola's lawsuit against us and our lawsuit against Motorola.

Due to the nature of litigation generally and because the lawsuit brought by Motorola is at an early stage, we cannot ascertain the outcome of the lawsuit, the availability of injunctive relief or other equitable remedies, or estimate the total expenses, possible damages or settlement value, if any, that we may ultimately incur in connection with our litigation with Motorola. However, we believe, based on our knowledge of the industry, our review of Motorola's six ITU-related patents and our products, our involvement in the ITU standards setting process and our awareness of Motorola's participation in that process, and the advice of our patent counsel, Knobbe, Martens, Olson & Bear, LLP, that Motorola's six ITU-related patents asserted in its lawsuit are not enforceable against us. We also believe, based on our knowledge of the industry, our review of Motorola's patent related to software modem technology and our products, and the advice of our patent counsel, Knobbe, Martens, Olson & Bear, LLP, that Motorola's patent allegedly related to software modem technology asserted by Motorola in its patent lawsuit against us is not infringed by us and is invalid. We are vigorously contesting, and intend to continue to vigorously contest, all of Motorola's claims. Nonetheless, this litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation.

Substantially all of our revenues to date are attributable to products which Motorola claims as the basis for its infringement suit against us. Further, we anticipate that a substantial proportion of our revenues for the foreseeable future is expected to be dependent upon sales of these and future products incorporating technology that Motorola has alleged infringes its patents. In the event that we do not prevail in litigation, we could be prevented from selling our products or be required to enter into royalty or licensing agreements. We could also be required to pay substantial monetary damages to Motorola, which are subject to trebling in the event of a finding by the court of willful infringement. The grant of a preliminary or permanent injunction could have an adverse effect on our business, including a substantial reduction in our revenues and income, losses for an extended period of time and a substantial depletion of our financial resources. In the event of an injunction, we could attempt to obtain a license from Motorola to enable us to continue to sell products incorporating the technology. However, we may not be able to enter into any royalty or licensing agreements on terms acceptable to us or at all. We could also attempt to develop a different technology and modify the design of our products in an effort to avoid infringement of Motorola's patents. However, we are not currently engaged in any development efforts in this regard, and we cannot be sure that any efforts would be successful. Even if successful, these efforts would require a substantial period of time to complete and we cannot be sure that these efforts would result in competitive products.

In connection with the Motorola litigation, we have incurred and expect to continue to incur substantial legal and other expenses. In addition, the Motorola litigation has diverted and is expected to continue to divert the efforts and attention of our management and technical personnel. Accordingly, whether or not we are ultimately successful on the merits, the expenses and diversion of resources associated with the Motorola litigation could have a material adverse effect on our business and operating results. If the Motorola lawsuit were to be resolved by a settlement, we might be required to make substantial payments to Motorola or to grant a cross-license to Motorola to utilize our technology, which could also hurt our business and operating results.

Our business is exposed to additional risks because we have significant international sales and operations.

Our sales to customers located in Asia accounted for 74%, 77% and 76% of our total revenues in the years ended December 31, 1996, 1997 and 1998, respectively, and 77% and 99% of total revenues in the six months ended June 30, 1998 and 1999, respectively. The predominance of our sales are in Asia, mostly in Taiwan and China, because our customers are primarily motherboard or modem manufacturers that are located there. In many cases, our indirect OEM customers specify that our products be included on the modem boards or motherboards that they purchase from board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect OEM customers. Industry statistics indicate that approximately two thirds of modems manufactured in Asia are sold back to OEMs located in the United States. Due to the industry-wide concentration of modem manufacturers in Asia, we believe that a high percentage of our future sales will continue to be concentrated with Asian customers. As a result, our future operating results could be uniquely affected by a variety of factors outside of our control, including:

- . political and economic instability,
- . changes in tariffs, quotas, import restrictions and other trade barriers,
- . difficulty in meeting export license requirements,
- . delays in collecting accounts receivable,
- . adverse tax consequences,
- . changes in legislative or regulatory requirements, and
- . fluctuations in the value of Asian currencies relative to the U.S. dollar.

To successfully expand our international sales, we must strengthen foreign operations, hire additional personnel and recruit additional international distributors and resellers. This will require significant management attention and financial resources. To the extent that we are unable to effect these additions in a timely manner, we may not be able to maintain or increase international market demand for our products, and our operating results could be adversely affected.

Continuing decreases in the average selling prices of our products could materially adversely affect our operating results.

Product sales in the connectivity industry have been characterized by continuing erosion of average selling prices. Price erosion experienced by any company can cause revenues and gross margins to decline, and negatively affect operating results. The average selling price of our products has decreased by approximately 40% from October 1995 to June 30, 1999. We expect this trend to continue. This erosion is due to a number of factors, including:

- . competitive pricing pressures from other sellers of connectivity solutions,
- . rapid technological change resulting in rapid introductions of new products,
- . continuing price performance enhancements by our competitors, and
- . customers of PC-Tel who negotiate price reductions in exchange for longer term purchase commitments.

In addition, we believe that the widespread adoption of industry standards in the soft modem industry is likely to further erode average selling prices, particularly for analog modems. Decreasing average selling prices

in our products could result in decreased revenue even if the number of units that we sell increases. Therefore, we must continue to develop and introduce next-generation products with enhanced functionalities that can be sold at higher gross margins. Our failure to do this could cause our revenues and gross margin to decline.

Our gross margins may vary based on the mix of sales of our products and services, and these variations will directly affect our quarterly operating results.

We derive a significant portion of our sales from our software-based connectivity products. We expect margins on newly-introduced products generally to be higher than our existing products. However, due in part to the competitive pricing pressures that affect our products and in part to increasing component and manufacturing costs, we expect margins from both existing and future products to decrease over time. In addition, licensing revenues from our products historically have provided higher margins than of our product sales. Changes in the mix of products sold and the percentage of our sales in any quarter attributable to products as compared to licensing revenues will cause our quarterly results to vary and could adversely affect our operating results.

Our quarterly operating results may fluctuate significantly, and these fluctuations may cause our stock price to fall.

Our quarterly and annual operating results have varied in the past and are expected to vary in the future depending upon a number of factors. As a result, we believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful, and you should not rely on them as an indication of future performance. The operating results of companies in our industry have in the past experienced significant quarter-to-quarter fluctuations. If our revenues for a quarter fall below our expectations and we are not able to quickly reduce our operating expenses in response, our operating results for that quarter would be negatively affected. In addition, it is likely that in some future quarter our operating results may be below the expectations of public market analysts and investors and, as a result, our stock price may fall.

Seasonal trends in sales of our software-based connectivity products may affect our quarterly operating results.

We have experienced and expect to continue to experience seasonality in sales of our connectivity products. These seasonal trends materially affect our quarter-to-quarter operating results. Our revenues are higher during the back-to-school and holiday seasons which fall in the third and fourth calendar quarters. Revenue and operating results in our third and fourth quarters are typically higher relative to other quarters because many purchasers of PCs make purchase decisions based on their calendar year-end budgeting requirements. As a result, we generally expect revenue levels and operating results for the first quarter to be less than those for the preceding quarter.

We are currently expanding our sales in international markets, particularly in Asia, Europe and South America. We expect our third quarter to reflect the effects of summer slowing of international business activity and spending activity generally associated with that time of year, particularly in Europe. To the extent that our revenue in Asia, Europe or other parts of the world increase in future periods, we expect our period-to-period revenues to reflect seasonal buying patterns in these markets.

We expect that our operating expenses will increase substantially in the future and these increased expenses may adversely affect our ability to remain profitable.

Although we have been profitable in recent years, we may not remain profitable on a quarterly or annual basis in the future. We anticipate that our expenses will increase substantially in the foreseeable future as we:

- . further develop and introduce new applications and functionality for our host signal processing technology,
- . explore emerging product opportunities in digital technologies and wireless and cable communications,

- . expand our distribution channels, both domestically and in our international markets, and
- . pursue strategic relationships and acquisitions.

In order to maintain profitability we will be required to increase our revenue to meet these additional expenses. Any failure to significantly increase our revenue as we implement our product, service, distribution and strategic relationship strategies would have a negative effect on our operating results.

We must accurately forecast our customer demand for our modem products. If there is an unexpected fluctuation in demand for our products, we may incur excessive operating costs or lose product revenues.

We must forecast and place purchase orders for specialized semiconductor chips, the ASIC, CODEC and discrete access array, or DAA, components of our modem products, several months before we receive purchase orders from our own customers. This forecasting and order lead time requirement limits our ability to react to unexpected fluctuations in demand for our products. These fluctuations can be unexpected and may cause us to have excess inventory, or a shortage, of a particular product. In the event that our forecasts are inaccurate, we may need to write down excess inventory. For example, we were required to write down inventory in the second quarter of 1996 in connection with a product transition within our 14.4 Kbps product family. Similarly, if we fail to purchase sufficient supplies on a timely basis, we may incur additional rush charges or we may lose product revenues if we are not able to meet a purchase order. These failures could also adversely affect our customer relations. Significant write-downs of excess inventory or declines in inventory value in the future could adversely affect our financial results.

Any delays in our normally lengthy sales cycles could result in significant fluctuations in our quarterly operating results.

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

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

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

Other third parties may also assert that our products infringe their intellectual property rights.

In addition to our ongoing patent litigation with Motorola, we have received, and may receive in the future, communications from third parties asserting that our products infringe on their intellectual property rights. These claims could affect our relationships with existing customers and may prevent potential future customers from purchasing our products or licensing our technology. Because we depend upon a limited number of products, any claims of this kind, whether they are with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. In the event that we do not prevail in litigation, we could be prevented from selling our products or be required to

enter into royalty or licensing agreements on terms which may not be acceptable to us. We could also be prevented from selling our products or be required to pay substantial monetary damages.

We have received communications from third parties, including Motorola, Lucent and Dr. Brent Townshend, claiming to own patent rights in technologies that are part of communications standards adopted by the ITU, such as v.90, v.34, v.42bis and v.32bis, and other common communications standards. These third parties claim that our products utilize such patented technologies and have requested that we enter into license agreements with them. At various times we have engaged in negotiations with, and are continuing to negotiate with, Lucent to obtain licenses under its patents. Motorola has refused to conduct further negotiations with us to license its patents and we are in litigation with Motorola in connection with its patent infringement claims. To date, we have not obtained any licenses from Lucent, Motorola or Dr. Townshend, because we believe that Lucent, Motorola and Dr. Townshend have requested license fees or cross licenses of our portfolio of intellectual property on terms that are not fair, reasonable and nondiscriminatory as required by the ITU. Should we cross license our intellectual property in order to obtain licenses, we may no longer be able to offer a unique product.

In addition, new patent applications may be currently pending or filed in the future by third parties covering technology that we use currently or may use in the future. Pending U.S. patent applications are confidential until patents are issued, and thus it is impossible to ascertain all possible patent infringement claims against us. We believe that several of our competitors, including Motorola, Lucent and ESS Technology, may have a strategy of protecting their market share by filing intellectual property claims against their competitors and may assert claims against us in the future. The legal and other expenses and diversion of resources associated with any such litigation could materially and adversely affect our business, financial condition and results of operations.

In addition, some of our customer agreements include an indemnity clause that obligates us to defend and pay all damages and costs finally awarded by a court should third parties assert patent and/or copyright claims against our customers. As a result, we may be held responsible for infringement claims asserted against our customers.

We have established and recorded on a monthly basis a financial per-unit reserve for payment of future license fees based upon our estimate as to the likely amount of the licensing fees that we may be required to pay in the event that licenses are obtained. We believe that it is typical for participants in the modem industry to obtain licenses in exchange for grants of cross licenses rather than for payment of fees and we have based our estimates on our understanding of the license fee practices of other segments of our industry. Our reserves may not be adequate because of factors outside of our control and because these license fee practices in the modern industry may not be applicable to our experience.

If we cannot retain our executive officers and our key personnel our business may be adversely affected.

Our past performance has been and our future performance is substantially dependent on the performance of our current executive officers and certain key engineering, managerial, sales, marketing, financial, technical and customer support personnel. If we lost the services of one or more of our executives or key employees, a replacement could be difficult to recruit and our business could be adversely affected.

In August 1999, we hired William F. Roach as our new President and Chief Operating Officer. If for any reason Mr. Roach is not successful, our business may be adversely affected.

We maintain "key person" life insurance policies on Peter Chen, our Chairman and Chief Executive Officer, William Wen-Liang Hsu, our Vice President, Engineering, and Han-Chung Yeh, our Vice President, Technology, in the face amount of \$1 million for each individual. However, these insurance policies may not adequately compensate for the loss of services of any of these individuals.

Our success depends on our ability to attract and retain qualified technical, sales, support and other administrative personnel.

We intend to hire a significant number of additional engineering, sales, support, marketing and finance personnel in the future. Competition for personnel, especially engineers and marketing and sales personnel in Silicon Valley, is intense. We expect competition for qualified personnel to remain intense, and we may not succeed in attracting or retaining personnel. If we do not attract qualified personnel, this could adversely affect our business.

We are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, backgrounds and industry experience. As of June 30, 1999, we employed a total of 58 people in our engineering department, over half of whom have advanced degrees. In the past we have experienced difficulty in recruiting qualified engineering personnel, especially developers, on a timely basis. If we are not able to hire at the levels that we plan, our ability to continue to develop products and technologies responsive to our markets will be impaired.

Technical and customer support is also critical to our future success because our products and the related technologies are rapidly evolving and many customers require technical support in implementing our products. If we are unable to provide comprehensive technical support services satisfactory to our existing and prospective customers, our ability to establish and expand our presence in the connectivity markets may be adversely affected.

As we continue to develop new products for the emerging broadband and Internet markets, our expanded business focus has also placed greater emphasis on our need for additional sales and marketing personnel. Hiring additional personnel in this area will be important for us to effectively achieve customer acceptance in our targeted markets.

We have experienced significant growth in our business in recent periods and failure to manage our growth could strain our management and other resources.

Our ability to successfully sell our products and implement our business plan in rapidly evolving markets requires an effective management planning process. Future expansion efforts could be expensive and put a strain on our management and resources. We have increased, and plan to continue to increase, the scope of our operations at a rapid rate. Our headcount has grown and will continue to grow substantially. At December 31, 1998, we had a total of 95 employees and at June 30, 1999, we had a total of 125 employees. In addition, we expect to continue to hire a significant number of new employees. To effectively manage our growth, we must maintain and enhance our financial and accounting systems and controls, integrate new personnel and manage expanded operations.

If we are unable to expand our customer base, our ability to sustain our revenue growth rates may be adversely affected.

To date, we have principally relied upon our direct sales organization for product sales to smaller accounts. Our direct sales efforts have focused principally on board manufacturers and smaller PC OEMs. To increase penetration of our target customer base, including large, tier-one, OEMs, we must significantly increase the size of our direct sales force and organize and deploy sales teams targeted at specific domestic tier-one OEM accounts. If we are unable to expand our sales to additional OEMs, our revenue growth rates may be adversely affected.

We are subject to additional risks because we rely on independent companies to manufacture, assemble and test our products. If these companies do not meet their commitments to us, our ability to sell products to our customers would be impaired.

We do not have our own manufacturing, assembling or testing operations. Instead, we rely on independent companies to manufacture, assemble and test the semiconductor chips which are integral components of our

products. Most of these companies are located outside of the United States. There are many risks associated with our relationships with these independent companies, including reduced control over:

- . delivery schedules,
- . quality assurance,
- . manufacturing costs,
- . capacity during periods of excess demand, and
- . availability of access to process technologies.

In addition, the location of these independent parties outside of the United States creates additional risks resulting from the foreign regulatory, political and economic environments in which each of these companies exists. While to date we have not experienced any material problems, failures or delays by our manufacturers to provide the semiconductor chips that we require for our products, or any material change in the financial arrangements we have with these companies, could have an adverse impact on our ability to meet our customer product requirements.

We are a fabless company and the majority of our products and related components are manufactured by five principal companies: Taiwan Semiconductor Manufacturing Corporation, ST Microelectronics, Kawasaki/LSI, Silicon Labs and Delta Integration. We expect to continue to rely upon these third parties for these services. Currently, the DAA chips used in our soft modem products are provided by a sole source, Silicon Labs, on a purchase order basis, and we have only a limited guaranteed supply arrangement under a contract with our supplier. We are currently in the process of qualifying a second source for our DAA chips. Although we believe that we would be able to qualify an alternative manufacturing source for DAA chips within a relatively short period of time, such a transition, if necessary, could result in loss of purchase orders or customer relationships, which could adversely affect our operating results.

We rely heavily on our intellectual property rights which offer only limited protection against potential infringers. If we cannot protect these rights, this could adversely affect our business.

Our success is heavily dependent upon our proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. These means of protecting our proprietary rights may not be adequate. We hold a total of 32 patents, a number of which cover technology that is considered essential for ITU standard communications solutions, and also have 26 additional patent applications pending or filed. These patents may never be issued. These patents, both issued and pending, may not provide sufficiently broad protection against third party infringement lawsuits or they may not prove enforceable in actions against alleged infringers.

Despite precautions that we take, it may be possible for unauthorized third parties to copy aspects of our current or future products or to obtain and use information that we regard as proprietary. We may provide our licensees with access to our data model and other proprietary information underlying our licensed applications. Additionally, our competitors may independently develop similar or superior technology. Finally, policing unauthorized use of software is difficult and some foreign laws, including those of various countries in Asia, do not protect our proprietary rights to the same extent as United States laws. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could have a negative effect on our financial results.

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

Our products may contain undetected software errors or failures when first introduced or as new versions are released. Despite testing by us and by current and potential customers, errors may be found in new products after commencement of commercial shipments, resulting in loss of customers or delay in market acceptance.

Potential Year 2000 issues could adversely affect our business or operating results.

The Year 2000 issue refers to computer programs which use two digits rather than four to define a given year and which might read a date using "00" as the year 1900 rather than the Year 2000. As a result, many companies' systems and software may need to be upgraded or replaced in order to function correctly after December 31, 1999.

Our Software. In the ordinary course of our business, we test and evaluate our software modems. We believe that our current products are Year 2000 compliant, meaning that the use or occurrence of dates on or after January 1, 2000 will not materially affect the performance of our software products or the ability of our products to transmit data involving dates. However, our connectivity products are incorporated into computer products of our customers which may not be Year 2000 compliant, or which may be perceived by their markets as not meeting Year 2000 compliance requirements. As a result, it is likely that any failure of the computer products into which our products may be incorporated to be Year 2000 compliant, or any slowdown in the connectivity markets as a result of Year 2000 compliance concerns, will hurt our product sales. In addition, we believe that the purchasing patterns of customers and potential customers may be affected by Year 2000 issues as companies expend significant resources to correct or upgrade their current software systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase our products. To the extent Year 2000 issues cause a significant delay in, or cancellation of, decisions to purchase our products or services, our business would suffer.

Third Party Equipment And Software. We use third party equipment and software that may not be Year 2000 compliant. This equipment and software includes our key internal systems such as for our internal accounting systems or controls. If this equipment or software does not operate properly with regard to the Year 2000, we may incur unexpected expenses to remedy any problems. These costs may materially adversely affect our business. In addition, if our key internal systems fail as a result of Year 2000 problems, we could incur substantial costs and disruption of our business.

Compliance. To date, we have not incurred any material costs directly associated with Year 2000 compliance efforts, except for compensation expense associated with salaried employees who have devoted some of their time to Year 2000 assessment and remediation efforts. We do not expect the total cost of Year 2000 problems to be material to our business, financial condition or operating results. However, during the months prior to the century change, we will continue to evaluate new versions of our products, new software and information systems provided by third parties and any new infrastructure systems that we acquire, to determine whether they are Year 2000 compliant. Despite our current assessment, we may not identify and correct all significant Year 2000 problems on a timely basis. Year 2000 compliance efforts may involve significant time and expense and unremediated problems could harm our business, financial condition and operating results. We currently do not have any estimate of potential costs related to potential Year 2000 problems. We currently have no contingency plans to address the risks associated with unremediated Year 2000 problems.

Risks Related to Our Industry

If the market for applications using our host signal processing technology does not grow as we anticipate, or if our products are not accepted in this market, our business will be adversely affected.

Our success depends on the growth of the market for applications using our host signal processing technology. This market has only recently begun to develop and may not develop at the growth rates that have been suggested by industry estimates. Market demand for host signal processing technology depends primarily upon the cost and performance benefits relative to other competing solutions. For example, soft modems have only recently begun to gain acceptance in the modem market. Although we have shipped a significant number of soft modems since we began commercial sales of these products in October 1995, the current level of demand for soft modems may not be sustained or may not grow. If customers do not accept soft modems or the market for soft modems does not grow, our business will be adversely affected.

Further, we are in the process of developing next generation products and applications which improve and extend upon our host signal processing technology, such as a G.Lite modem solution, an external modem product and a remote access solution. If these products are not accepted in our markets when they are introduced, our revenues and profitability will be adversely affected.

Our business, operating results and financial condition will be adversely impacted if we fail to compete successfully in our connectivity product market, which is highly competitive.

The connectivity device market is intensely competitive. We may not be able to compete successfully against current or potential competitors, and our failure to do so will adversely affect our business, operating results and financial condition. Our current competitors include 3Com, Conexant, ESS Technology, Lucent Technologies and Motorola. Motorola introduced soft modems in the third quarter of 1998 and Conexant introduced soft modems in the fourth quarter of 1998. We expect competition to increase in the future as current competitors enhance their product offerings, new suppliers enter the connectivity device market, new communication technologies are introduced and additional networks are deployed.

We may in the future also face competition from other suppliers of products based on host signal processing technology or on new or emerging communication technologies, which may render our existing or future products obsolete or otherwise unmarketable. We believe that these competitors may include Alcatel, Analog Devices, Aware, Broadcom, Com21, Efficient Networks, Orckit, Terayon Communications and Texas Instruments.

Compared to us, many of our competitors, including some of those described above, have:

- . longer operating histories than we do with more experience in designing and selling connectivity products and services,
- . greater presence in our connectivity product markets, which can provide an immediate advantage in connection with new product introductions,
- . greater name recognition, which can facilitate customer acceptance of new products and technologies,
- . access to larger customer bases,
- . significantly greater financial resources, which could enable a competitor to significantly reduce the price of new products below prevailing market rates to capture market share,
- . significantly greater research and development and other technical resources, which may enable a competitor to respond more quickly than we can to new or emerging technologies and changes in customer requirements, or to introduce new products that are superior to our products or bundle modem solutions with its other products, and
- . significantly greater sales and marketing resources to devote to the promotion, sale and support of competitive products.

We believe that the principal competitive factors required by users and customers in the connectivity product market include compatibility with industry standards, price, functionality, ease of use and customer service and support. Although we believe that our products currently compete favorably with respect to these factors, we may not be able to maintain our competitive position against current and potential competitors.

Our industry is characterized by rapidly changing technologies and our future success will depend on our ability to adapt to these technologies.

The connectivity product market is characterized by rapidly changing technologies, limited product life cycles and frequent new product introductions. To remain competitive in this market, we have been required to introduce many products over a limited period of time. For example, we introduced a 14.4 Kbps product in 1995, a 28.8 Kbps product in 1996, a 33.6 Kbps product in late 1996, a non-ITU standard 56 Kbps modem in the second half of 1997 and a v.90 ITU standard 56 Kbps modem in early 1998. The market for high speed

data transmission is also characterized by several competing technologies that offer alternative broadband solutions which allow for higher modem speeds and faster Internet access. These competing broadband technologies include xDSL, wireless and cable. However, substantially all of our current product revenue is derived from sales of analog modems, which use a more conventional technology. We must continue to develop and introduce technologically advanced products that support one or more of these competing broadband technologies. If we are not successful in our response, we will not be able to compete effectively and our financial results will be adversely affected.

If we are unable to adapt our products to evolving industry standards, we will not be able to meet the requirements of our customers.

The emergence of new industry standards may render our products unmarketable or obsolete and may require us to incur substantial unanticipated costs to develop products that comply with new standards. The emphasis on communications standards in the connectivity product market may cause OEMs and end users to delay purchasing activities on a market-wide basis until vendors redesign and redevelop connectivity products to suit new industry communications standards. For example, we believe that the commercial introduction in 1997 of 56 Kbps modems based on incompatible standards created uncertainty in the modem industry generally, which adversely affected our operating results in the first two quarters of 1998. Because we intend to introduce products and applications to support broadband communications, our financial performance will depend on the announcement and acceptance of industry standards as they relate to different broadband technologies such as G.Lite and ADSL, and our ability to design and develop products based on those standards. If we do not meet or anticipate these standards, we will not be able to compete effectively and our financial results will be adversely affected.

The success of our future products designed for the emerging broadband and Internet markets will depend on the supporting infrastructure for these markets. If this infrastructure fails to keep pace, our products will not be accepted by customers.

The success of our future products for the broadband and Internet markets will depend on the commercial availability and cost of other products and systems, including switches, routers, multimedia and Internet servers, code/decode equipment within telephony networks, and customer premises equipment for the telephone company customers. If this infrastructure of products and systems is not fully integrated into our markets, the functionality and utility of our products, such as our G.Lite product designed to increase the speed of Internet access and other interactive services, will be impaired and will not be accepted by our markets. Many of the products and systems necessary to support our connectivity products are still in the implementation and testing stages of their development. We cannot assure you that the suppliers of these products and systems will complete this development and market these complementary products and components effectively. In addition, we cannot predict that these products and systems, when combined with our broadband products, will be a cost-effective means of delivering high speed data transmission, for Internet and other interactive services.

Our products and those of our customers are subject to government regulations. Changes in laws or regulations that negatively impact our products and technologies could harm our business.

The jurisdiction of the Federal Communications Commission extends to the entire communications industry, including our customers and their products and services that incorporate our products. Future FCC regulations affecting the broadband access services industry, our customers or our products may harm our business. For example, FCC regulatory policies that affect the availability of data and Internet services may impede our customers' penetration into their markets or affect the prices that they are able to charge. In addition, international regulatory bodies are beginning to adopt standards for the communications industry. Delays caused by our compliance with regulatory requirements may result in order cancellations or postponements of product purchases by our customers, which would harm our business and adversely affect our operating results and financial condition.

Risks Related to this Offering

Shares eligible for sale in the near future may adversely affect the market price for our common stock.

Sales of a substantial number of shares of our common stock in the public market following this offering could adversely affect the market price for our common stock. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities law and under agreements that our stockholders have entered into with the underwriters. Those agreements restrict our stockholders from selling, pledging or otherwise disposing of their shares for a period of 180 days after the date of this prospectus without the prior written consent of Banc of America Securities LLC. Banc of America Securities LLC may, however, in its sole discretion, release all or any portion of the common stock from the restrictions of the lockup agreements, although they have no current plans to do so. Upon completion of this offering we will have outstanding 15,602,078 shares of common stock, assuming no exercise of the underwriters' over allotment option and no exercise of outstanding options or warrants. Of these shares, the 4,600,000 shares sold in this offering are freely tradeable. The remaining 11,002,078 shares are eligible for sale in the public market as follows:

| Relevant Dates | Approximate Shares Eligible for Future Sale | Comment |
|---|---|--|
| ----- | | |
| On effective date(1).... | | Shares sold in this offering and eligible for sale under Rule 144(k) |
| 90 days after effective date(2)..... | | Additional shares eligible for sale under Rules 144 and 701 |
| 180 days after effective date(2)..... | | All shares subject to lock-up released; additional shares eligible for sale under Rules 144 and 701 |
| More than 181 days after effective date(2)..... | | Additional shares becoming eligible for sale under Rule 144 more than 180 days from the effective date |

- (1) Assumes no exercise of the underwriters' over-allotment option.
 (2) Assumes an effective date of September 30, 1999.

In addition, as of June 30, 1999, there were outstanding options and warrants to purchase 4,018,127 shares of common stock. All such options and warrants are subject to lock-up agreements. Banc of America Securities LLC may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Our current officers and directors own a significant portion of our stock and accordingly, no corporate actions requiring stockholder approval can be consummated without approval of this group.

Upon completion of this offering, our officers, directors and persons or entities directly related to these individuals will together beneficially own approximately 37% of the outstanding shares. In particular, WK Technology Funds owns approximately 17.2% and Peter Chen owns 11.7% of the shares. As a result, WK Technology Funds and our officers and directors, in general, will be able to control most matters requiring stockholder approval. These matters would include the election of our directors and approval of potential mergers, consolidations or sales of all or substantially all of our assets.

Our stock will likely be subject to substantial price and volume fluctuations due to a number of factors, many of which are beyond our control.

Stock prices and trading volumes for many communications companies fluctuate widely for a number of reasons, including some reasons that may be unrelated to their businesses or operating results, such as changes in analysts' estimates, the presence or absence of short-selling of common stock and events affecting other companies that the market deems to be comparable. This market volatility, as well as general domestic or international economic, market and political conditions, could negatively affect the market price of our common stock without regard to our operating performance.

Provisions in our charter documents may inhibit a change of control or a change of management which may adversely affect the market price for our common stock.

Provisions of our charter documents specify procedures for nominating and electing directors and submitting proposals for consideration at stockholder meetings. Some of these provisions could discourage potential acquisition proposals, delay or prevent a change in control transaction and have the effect of discouraging others from making tender offers for our shares. As a result, these provisions may prevent the market price of our common stock from reflecting the effects of actual or rumored takeover attempts. These same provisions may also inhibit changes in our management.

Upon the closing of the offering, our board of directors will have the authority to issue up to 5,000,000 shares of preferred stock in one or more series. The board of directors can fix the price, rights, preferences, privileges and restrictions of this preferred stock without any further vote or action by our stockholders. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Further, the issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by the our stockholders. As a result, the market price of the our common stock may be adversely affected.

Our securities have no prior market, and we cannot assure you that our stock price will not decline after the offering.

The trading market price of our common stock may decline below the initial public offering price. In addition, an active public market for our common stock may not develop or be sustained after this offering. Before this offering, there has not been a public market for our common stock. The initial public offering price will be determined by negotiations between PC-Tel and the representatives of the underwriters.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus, including the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," contains forward-looking statements. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include among other things, those listed under "Risk Factors" and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

USE OF PROCEEDS

We estimate that we will receive net proceeds of \$66,648,000 from the sale of 4,600,000 shares of common stock based on an assumed initial offering price of \$16.00 per share (or \$76,915,000 assuming the underwriters' over-allotment option of \$690,000 shares is exercised in full) after deducting estimated offering expenses and underwriting discounts and commissions.

The principal purposes of this offering are to obtain additional capital, create a public market for our common stock and facilitate our future access to public securities markets.

We currently expect to use \$15.7 million of the proceeds of this offering to repay bank debt. Had this offering closed on June 30, 1999, the amount used to repay bank debt would have equaled \$16.0 million. This debt bears interest at the bank's prime interest rate plus 0.5%. Absent such prepayment, this debt is to be repaid in 60 monthly payments ending in January 2004. The prepayment of this debt will result in a 3% penalty. We entered into this debt to fund our acquisition in December 1998 of Communications Systems Division from General DataComm Inc.

We will use the remaining proceeds from this offering for general corporate purposes, including working capital. We also may use a portion of the net proceeds to acquire complementary products, technologies or businesses. However, we currently have no commitments or agreements and are not involved in any negotiations with respect to any transactions. Pending use of the net proceeds of this offering, we intend to invest the net proceeds in short-term, interest-bearing securities.

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 1999 (i) on an actual basis, and (ii) on a pro forma basis adjusted to give effect to the receipt by us of the estimated net proceeds from the sale of 4,600,000 shares of common stock in this offering at an assumed initial public offering price of \$16.00 per share and the repayment of outstanding bank debt for \$16.0 million as of June 30, 1999. The adjusted balance sheet data as of June 30, 1999 also reflects the write-off of deferred debt issuance costs and the expense of the prepayment penalty related to the bank debt.

The outstanding share information in the table excludes, as of June 30, 1999, 3,815,710 shares of common stock subject to outstanding stock options under our 1995 and 1997 stock plans, and 202,417 shares of common stock issuable upon exercise of outstanding warrants. The outstanding share information in the table also does not reflect option grants under our 1997 stock plan made during the period between July 1 and August 3, 1999 for the purchase of 565,390 shares, including an option grant to purchase 400,000 shares of common stock to Mr. William F. Roach, who became our President and Chief Operating Officer in August 1999.

| | June 30, 1999 | |
|--|--|------------------------------------|
| | Actual | Pro Forma After the Offering |
| | (in thousands, except share and per share data) | |
| Current portion of long-term debt..... | \$ 1,847 | \$ -- |
| Long-term debt, net of current portion..... | 13,630 | -- |
| Stockholders' equity: | | |
| Preferred stock: par value \$0.001 per share, aggregate liquidation preference of \$10,015, 9,385,548 shares authorized, 8,510,748 issued and outstanding, actual; zero shares issued and outstanding pro forma after the offering.. | 9 | -- |
| Common stock: par value \$0.001 per share, 50,000,000 shares authorized, 2,491,330 issued and outstanding, actual; 15,602,078 shares issued and outstanding, pro forma after the offering..... | 2 | 16 |
| Additional paid-in-capital..... | 12,881 | 79,524 |
| Deferred compensation..... | (2,162) | (2,162) |
| Retained earnings..... | 7,131 | 5,735 |
| Total stockholders' equity..... | 17,861 | 83,113 |
| Total capitalization..... | \$ 33,338 | \$ 83,113 |
| | ===== | ===== |

DILUTION

Net tangible book value per share of common stock represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share immediately after the completion of this offering.

Our pro forma net tangible book value as of June 30, 1999 was approximately \$6.7 million, or \$0.61 per share of common stock. Pro forma net tangible book value per share represents total tangible assets less total liabilities, divided by the number of outstanding shares of common stock. Our pro forma net tangible book value per share stated here gives effect to the conversion of all outstanding shares of preferred stock into 8,510,748 shares of common stock effective immediately upon the closing of this offering. After giving effect to the sale of the 4,600,000 shares of common stock offered by us at an assumed initial public offering price of \$16.00 per share and after deducting underwriting discounts and estimated offering expenses, the pro forma as adjusted net tangible book value at June 30, 1999 would have been approximately \$73.4 million, or approximately \$4.70 per share of common stock. This represents an immediate increase in net tangible book value of \$4.09 per share to existing stockholders and an immediate dilution in net tangible book value of \$11.30 per share to new investors of common stock in this offering. The following table illustrates this dilution on a per share basis:

| | |
|---|---------|
| Assumed initial public offering price per share..... | \$16.00 |
| | ----- |
| Pro forma net tangible book value per share at June 30, 1999.. | \$0.61 |
| | ----- |
| Increase per share attributable to this offering..... | 4.09 |
| | ----- |
| Pro forma as adjusted net tangible book value per share after this offering..... | 4.70 |
| | ----- |
| Dilution per share to new investors..... | \$11.30 |
| | ===== |

- - - - -
The table above excludes, as of June 30, 1999, 3,815,710 shares of common stock subject to outstanding options under our 1995 and 1997 stock plans, and 202,417 shares of common stock issuable upon exercise of outstanding warrants. To the extent options or warrants are exercised, there will be further dilution to new investors.

The following table sets forth, on a pro forma basis adjusted for the offering as of June 30, 1999, the differences between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing stockholders and by new investors, before deducting underwriting discounts and commissions and estimated offering expenses, at an assumed initial public offering price of \$16.00 per share.

| | Shares Purchased | | Total Consideration | | Average Price |
|----------------------------|------------------|---------|---------------------|---------|---------------|
| | Number | Percent | Amount | Percent | Per Share |
| | ----- | | ----- | | ----- |
| Existing stockholders..... | 11,002,078 | 70.5% | \$10,156,798 | 12.1% | \$ 0.92 |
| New investors..... | 4,600,000 | 29.5% | 73,600,000 | 87.9% | 16.00 |
| | ----- | | ----- | | ----- |
| Total..... | 15,602,078 | 100.0% | \$83,756,798 | 100.0% | |
| | ===== | ===== | ===== | ===== | ===== |

- - - - -
If the underwriters' over-allotment option is exercised in full, the percentage of shares of common stock held by existing stockholders after this offering would be reduced to approximately 67.5% and the number of shares of common stock held by new investors would increase to 5,290,000 or approximately 32.5% of the total number of shares of common stock outstanding after this offering.

Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", our Consolidated Financial Statements and related notes and other financial information appearing elsewhere in this prospectus. The statement of operations data for the years ended December 31, 1996, 1997 and 1998 and the balance sheet data as of December 31, 1997 and 1998 are derived from audited financial statements included elsewhere in this prospectus. The statement of operations data for the period from inception to December 31, 1994 and year ended December 31, 1995 and the balance sheet data as of December 31, 1994, 1995 and 1996 are derived from audited financial statements not included in this prospectus. The balance sheet data as of June 30, 1999 and the statement of operations data for the six months ended June 30, 1998 and 1999 are unaudited, have been prepared on the same basis as the audited statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair representation of PC-Tel's operating results for such periods and financial condition at such date. The operating results for the six-month period ended June 30, 1999 are not necessarily indicative of the results to be expected for any other interim period or any future fiscal year.

| | Period From February 10, 1994 (inception) to December 31, 1994 | Year Ended December 31, | | | | Six Months Ended June 30, | |
|--|---|---------------------------------------|-----------|-----------|-----------|------------------------------|----------|
| | | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| | | (in thousands, except per share data) | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenues..... | \$ -- | \$ 191 | \$ 16,573 | \$ 24,009 | \$ 33,004 | \$12,343 | \$33,046 |
| Cost of revenues..... | -- | 106 | 9,182 | 12,924 | 13,878 | 5,948 | 16,997 |
| Gross profit..... | -- | 85 | 7,391 | 11,085 | 19,126 | 6,395 | 16,049 |
| Operating expenses: | | | | | | | |
| Research and development..... | 198 | 822 | 2,152 | 3,348 | 4,932 | 2,455 | 4,423 |
| Sales and marketing.... | 42 | 275 | 839 | 3,168 | 5,624 | 2,407 | 4,945 |
| General and administrative..... | 43 | 115 | 477 | 1,612 | 2,169 | 791 | 2,063 |
| Acquired in-process research and development..... | -- | -- | -- | -- | 6,130 | -- | -- |
| Amortization of deferred compensation expense..... | -- | -- | 41 | -- | 43 | 10 | 164 |
| Total operating expenses..... | 283 | 1,212 | 3,509 | 8,128 | 18,898 | 5,663 | 11,595 |
| Income (loss) from operations..... | (283) | (1,127) | 3,882 | 2,957 | 228 | 732 | 4,454 |
| Other income (expense), net: | | | | | | | |
| Interest income..... | 4 | 35 | 127 | 299 | 504 | 254 | 303 |
| Interest expense..... | -- | -- | -- | -- | (25) | (11) | (895) |
| Total other income (expense), net..... | 4 | 35 | 127 | 299 | 479 | 243 | (592) |
| Income (loss) before provision for income taxes..... | (279) | (1,092) | 4,009 | 3,256 | 707 | 975 | 3,862 |
| Provision for income taxes..... | 1 | 1 | 1,005 | 955 | 212 | 292 | 1,158 |
| Net income (loss)..... | \$(280) | \$ (1,093) | \$ 3,004 | \$ 2,301 | \$ 495 | \$ 683 | \$ 2,704 |
| Basic earnings per share..... | | | | | | | |
| | \$ -- | \$ -- | \$ 4.79 | \$ 1.13 | \$ 0.21 | \$ 0.29 | \$ 1.10 |
| Diluted earnings per share..... | | | | | | | |
| | \$ -- | \$ -- | \$ 0.29 | \$ 0.20 | \$ 0.04 | \$ 0.06 | \$ 0.21 |
| Shares used in computing basic earnings per share..... | | | | | | | |
| | -- | -- | 627 | 2,032 | 2,355 | 2,320 | 2,461 |
| Shares used in computing diluted earnings per share..... | | | | | | | |
| | -- | -- | 10,280 | 11,645 | 12,325 | 12,400 | 12,638 |
| As of December 31, | | | | | | | |
| | 1994 | 1995 | 1996 | 1997 | 1998 | June 30, 1999 | |
| (in thousands) | | | | | | | |

| | | | | | | |
|--|-----|-------|--------|--------|--------|--------|
| Total assets..... | 747 | 3,980 | 14,110 | 23,148 | 45,996 | 50,483 |
| Long term debt, net of current portion..... | -- | 3 | 5 | 38 | 14,709 | 13,630 |
| Total stockholders' equity..... | 746 | 3,228 | 6,689 | 13,610 | 15,139 | 17,861 |

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our Consolidated Financial Statements and related notes appearing elsewhere in this prospectus. Except for historical information, the following discussion contains forward-looking statements that involve risks and uncertainties, including, among other things, statements regarding our anticipated revenues, profits, costs and expenses, revenue mix and plans for addressing Year 2000 issues. Such forward-looking statements include, among others, those statements including the words, "may", "will", "plans", "seeks", "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ significantly from those discussed in the forward-looking statements. Factors that might cause future results to differ materially from those discussed in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this prospectus.

Overview

We provide cost-effective software-based connectivity solutions that address Internet access and other communications requirements for existing analog and emerging broadband networks. Our communications products enable Internet access through desktop PCs, notebook computers and non-PC devices. From our inception in February 1994 through the end of 1995, we were a development stage company primarily engaged in product development, product testing and the establishment of strategic relationships with customers and suppliers. From 1996 to 1999, our total headcount increased to support corporate growth from 18 at the end of 1995 to 125 at June 30, 1999. We first recognized revenue on product sales in the fourth quarter of 1995, and became profitable in 1996, our first full year of product shipments. Revenues increased from \$16.6 million in 1996 to \$24.0 million in 1997 to \$33.0 million in 1998. Revenues for the six months ended June 30, 1999 were \$33.0 million.

We sell soft modems to manufacturers and distributors principally in Asia through our sales personnel, independent sales representatives and distributors. Our sales to manufacturers and distributors in Asia were 74.4%, 77.1% and 75.9% of our total sales for the years ended 1996, 1997 and 1998, respectively, and 76.9% and 98.6% for the six months ended June 30, 1998 and 1999, respectively. The predominance of our sales are in Asia because our customers are primarily motherboard and modem manufacturers, and the majority of these manufacturers are located in Asia. In many cases, our indirect OEM customers specify that our products be included on the modem boards or motherboards that they purchase from the board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect OEM customers. Industry statistics indicate that approximately two-thirds of modems manufactured in Asia are sold back to OEMs located in the United States.

We recognize revenues from product sales to customers upon shipment. We provide for estimated sales returns, allowances and discounts related to such sales at the time of shipment. We recognize revenues from product sales to distributors upon a "sell through" basis from the distributor to the end user. We recognize revenues from non-recurring engineering contracts as contract milestones are achieved.

In the fourth quarter of 1998, we acquired substantially all of the assets and selected liabilities of Communications Systems Division of General DataComm, Inc., for a total purchase price of \$17.0 million. We began to recognize revenues in the three months ended June 30, 1999 from licensing the patent portfolio that we acquired in this acquisition. These revenues are recognized based on confirmation from licensees of the royalty payments due to us.

Results of Operations

The following table sets forth the results of our operations expressed as a percentage of total revenues.

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|--|-------------------------|--------|--------|---------------------------|--------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| Revenues..... | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues..... | 55.4 | 53.8 | 42.0 | 48.2 | 51.4 |
| Gross profit..... | 44.6 | 46.2 | 58.0 | 51.8 | 48.6 |
| Operating expenses: | | | | | |
| Research and development..... | 13.0 | 13.9 | 14.9 | 19.9 | 13.4 |
| Sales and marketing..... | 5.1 | 13.2 | 17.0 | 19.5 | 15.0 |
| General and administrative.... | 2.9 | 6.7 | 6.6 | 6.4 | 6.2 |
| Acquired in-process research and development..... | -- | -- | 18.6 | -- | -- |
| Amortization of deferred compensation expense..... | 0.2 | -- | 0.1 | 0.1 | 0.5 |
| Total operating expenses.... | 21.2 | 33.8 | 57.2 | 45.9 | 35.1 |
| Operating income..... | 23.4 | 12.4 | 0.8 | 5.9 | 13.5 |
| Other income (expense), net: | | | | | |
| Interest income..... | 0.8 | 1.2 | 1.5 | 2.1 | 0.9 |
| Interest expense..... | -- | -- | (0.1) | (0.1) | (2.7) |
| Total other income (expense), net..... | 0.8 | 1.2 | 1.4 | 2.0 | (1.8) |
| Income before provision for income taxes..... | 24.2 | 13.6 | 2.2 | 7.9 | 11.7 |
| Provision for income taxes..... | 6.1 | 4.0 | 0.6 | 2.4 | 3.5 |
| Net income..... | 18.1% | 9.6% | 1.6% | 5.5% | 8.2% |

Six Months Ended June 30, 1998 and 1999

(All amounts in tables, other than percentages, are in thousands)

Revenues

| | Six Months Ended June 30, | |
|---------------------------------|---------------------------|----------|
| | 1998 | 1999 |
| Revenues..... | \$12,343 | \$33,046 |
| % change from prior period..... | N/A | 167.7% |

Our historical revenues primarily consisted of product sales of soft modems to board manufacturers and distributors in Asia.

The 167.7% increase in revenues for the six months ended June 30, 1999 over the same period in the previous year was attributable to an increase in unit sales in 1999. We believe that this unit increase was due principally to the general acceptance of our products in the low cost, or sub-\$1,000, PC marketplace, the increase of market share of our MicroModem product and the certification by Microsoft of its Windows 98 logo for our products. The benefit of increase of sales volume was partly offset by downward pressure on average selling prices and sales discounts to customers.

Gross Profit

| | Six Months Ended June 30, | |
|---------------------------------|------------------------------|-----------|
| | 1998 | 1999 |
| Gross profit..... | \$ 6,395 | \$ 16,049 |
| Percentage of revenue..... | 51.8% | 48.6% |
| % change from prior period..... | N/A | 151.0% |

Cost of revenues consists primarily of chipsets which we purchase from third party manufacturers and also includes amortization of intangibles related to our acquisition of the Communications Systems Division in December 1998, accrued intellectual property royalties, cost of operations, reserves for inventory obsolescence and distribution costs. The royalties accrued are our best estimate based on royalty agreements already signed, or in negotiation, as well as advice from patent counsel. Upon consummation of the Communications Systems Division acquisition, we reduced our royalty reserves because we believe that we can obtain necessary licenses of the patent portfolio in exchange for grants of cross licenses rather than the payment of fees.

Gross profit increased \$9.7 million, or 151.0%, to \$16.0 million for the six months ended June 30, 1999 from \$6.4 million for the same period the previous year. The increase in gross profit was the direct result of increased revenues. However, as a percentage of revenues, gross profit decreased from 51.8% for the six months ended June 30, 1998 to 48.6% for the same period in 1999. Average selling prices decreased faster than the rate of cost reduction, which adversely effected our gross profit margins. We believe that decreases in the average selling price of our products through volume discounts have resulted in our attaining greater market share.

Research and Development

| | Six Months Ended June 30, | |
|---------------------------------|------------------------------|----------|
| | 1998 | 1999 |
| Research and development..... | \$ 2,455 | \$ 4,423 |
| Percentage of revenue..... | 19.9% | 13.4% |
| % change from prior period..... | N/A | 80.2% |

Research and development expenses include compensation costs for software and hardware development, prototyping, certification and pre-production costs. We expense all research and development costs as incurred.

Research and development expenses increased for the six months ended June 30, 1999 due to the addition of personnel for new product development in the G.Lite, modem riser card and HIDRA projects and engineering work related to v.90 modems. As a percentage of revenues, research and development decreased for the six months ended June 30, 1999 because revenue increased proportionally greater than research and development expenses. Approximately 70% of all research and development expenses are payroll related. The headcount in this area increased approximately 87% from the same period in the prior year, which included 18 additional staff members from the Communications Systems Division acquisition in December 1998. We expect that our research and development expenses will increase in absolute dollars due to the anticipated additional headcount and continued efforts in broadband product development.

Sales and Marketing

| | Six Months Ended June 30, | |
|---------------------------------|------------------------------|----------|
| | 1998 | 1999 |
| Sales and marketing..... | \$ 2,407 | \$ 4,945 |
| Percentage of revenue..... | 19.5% | 15.0% |
| % change from prior period..... | N/A | 105.4% |

Sales and marketing expenses consist primarily of personnel costs, sales commissions and marketing costs. Marketing costs include promotional goods, trade shows, press tours and advertisements in trade magazines.

Sales and marketing expenses increased \$2.5 million for the six months ended June 30, 1999, but decreased as a percentage of total revenues, compared to the same period in the prior year. The dollar increase reflects the addition of sales and marketing personnel to develop new accounts, support customers, and drive new product developments and product launches. We also expanded our sales regions geographically to include Japan and Korea. The increase in sales and marketing expenses is also due to increased governmental telephony certification of our products in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom, the production of sales materials, travel costs, trade shows and press tours.

General and Administrative

| | Six Months Ended June 30, | |
|---------------------------------|------------------------------|----------|
| | 1998 | 1999 |
| General and administrative..... | \$ 791 | \$ 2,063 |
| Percentage of revenue..... | 6.4% | 6.2% |
| % change from prior period..... | N/A | 160.8% |

General and administrative expenses include costs associated with our general management, human resources and finance functions as well as professional service charges, such as legal, tax and accounting fees. Other general expenses include rent, insurance, utilities, travel and other operating expenses to the extent not otherwise allocated to other functions.

These general and administrative expenses increased \$1.3 million for the six months ended June 30, 1999, over the same period in the prior year but decreased as a percentage of total revenues, compared to the same period in the prior year. This increase reflected additional legal costs related to contract negotiations, patent submissions, additional tax planning, as well as litigation expenses related to the Motorola lawsuit. We also incurred additional expenses related to the increase in staff.

Amortization of Deferred Compensation Expense

| | Six Months Ended June 30, | |
|--|------------------------------|--------|
| | 1998 | 1999 |
| Amortization of deferred compensation expense..... | \$ 10 | \$ 164 |
| Percentage of revenue..... | 0.1% | 0.5% |
| % change from prior period..... | N/A | 1,540% |

In connection with the grant of stock options to employees, we amortized \$164,000 in deferred compensation for the six months ended June 30, 1999. The deferred compensation expense related to the grant of stock options to employees for the six months ended June 30, 1998 was \$10,000. We expect that the deferred compensation expense will increase to approximately \$340,000 per quarter through the third quarter of 2003, based on option grant activity through August 3, 1999.

Other Income (Expense), Net

| | Six Months Ended June 30, | |
|----------------------------------|------------------------------|----------|
| | 1998 | 1999 |
| Other income (expense), net..... | \$ 243 | \$ (592) |
| Percentage of revenue..... | 2.0% | (1.8)% |
| % change from prior period..... | N/A | (343.6)% |

Other income (expense), net, consists of interest income, net of interest expense. Interest income is expected to fluctuate over time. Interest expense will continue to consist primarily of interest on capital leases and the \$16.3 million loan issued to acquire Communications Systems Division. Other income (expense), net, decreased \$835,000 for the six months ended June 30, 1999 over the same period for the prior year. The decrease was due primarily to the interest expense related to the bank loan issued to acquire the Communications Systems Division. We intend to repay the bank loan following completion of the offering.

Provision for Income Taxes

| | Six Months Ended June 30, | |
|---------------------------------|------------------------------|----------|
| | 1998 | 1999 |
| Provision for income taxes..... | \$ 292 | \$ 1,158 |
| Effective tax rate..... | 30.0% | 30.0% |
| % change from prior period..... | N/A | 296.6% |

Provision for income taxes increased for the six months ended June 30, 1999 over the same period for the prior year due to higher taxable income, while the effective tax rate remained constant at 30%.

Year Ended December 31, 1996, 1997 and 1998

Revenues

| | 1996 | 1997 | 1998 |
|---------------------------------|----------|----------|----------|
| Revenues..... | \$16,573 | \$24,009 | \$33,004 |
| % change from prior period..... | N/A | 44.9% | 37.5% |

Revenues increased 37.5% for 1998 due to an increase in unit sales over 1997. This unit increase was due principally to acceptance of our products in the marketplace following the certification by Microsoft of its Windows 95 and 98 logos for our products and the launch of our v.90 soft modem products early in 1998. The benefit of increased sales volume was partly offset by downward pressure on prices throughout the industry.

Revenues for 1997 increased 44.9% reflecting a doubling in unit sales over the same period in 1996. This revenue growth was fueled by the introduction of our K56Flex soft modem in late 1997. The benefit of increased sales volume was partly offset by downward pressure on prices throughout the industry.

Gross Profit

| | 1996 | 1997 | 1998 |
|---------------------------------|----------|----------|----------|
| Gross profit..... | \$ 7,391 | \$11,085 | \$19,126 |
| Percentage of revenue..... | 44.6% | 46.2% | 58.0% |
| % change from prior period..... | N/A | 50.0% | 72.5% |

Gross profit increased \$8.0 million, or 72.5%, for 1998 and increased as a percentage of revenues to 58.0% from 46.2% in 1997. The increase was due to the increase in revenues and lower unit costs obtained through volume discounts from our semiconductor vendors, which were partly offset by declining selling prices throughout the industry. The increase was also due in part to a \$3.0 million reversal in royalty reserves in the fourth quarter of 1998. Upon consummation of the Communications Systems Division acquisition in December 1998, we reduced our royalty reserves because we believe that in some instances we can obtain necessary licenses of third party technologies in exchange for grants of cross licenses of our patent portfolio rather than the payment of license fees or royalties. Without considering the \$3.0 million reversal in royalty reserves, gross profit as a percentage of revenues would have been 48.9% in 1998.

The increase in gross profit as a percentage of revenues from 1996 to 1997 reflects the change in the mixture of sales toward higher margin modems, economies of scale and lower reserves required for product obsolescence. The addition of personnel in the operations area enabled us to focus on better managing product cost, improving product transition strategies and reducing inventory levels.

Research and Development

| | 1996 | 1997 | 1998 |
|---------------------------------|---------|---------|---------|
| Research and development..... | \$2,152 | \$3,348 | \$4,932 |
| Percentage of revenue..... | 13.0% | 13.9% | 14.9% |
| % change from prior period..... | N/A | 55.6% | 47.3% |

Research and development expenses increased \$1.6 million, or 47.3%, for 1998. The increase was due to the addition of research and development personnel to facilitate new product development for our v.90, G.Lite and Modem Riser products.

Research and development expenses increased \$1.2 million in 1997, reflecting the growth in our software development team to facilitate new product development for our K56Flex and v.90 products.

Sales and Marketing

| | 1996 | 1997 | 1998 |
|---------------------------------|--------|---------|---------|
| Sales and marketing..... | \$ 839 | \$3,168 | \$5,624 |
| Percentage of revenue..... | 5.1% | 13.2% | 17.0% |
| % change from prior period..... | N/A | 277.6% | 77.5% |

Sales and marketing expenses increased \$2.5 million for 1998. We continued to develop our sales organization in 1998 to expand into different distribution channels, particularly the OEM channel. Consequently, sales and marketing personnel grew by approximately 63% to develop new accounts, support customers and drive new product developments and product launches. Sales and marketing expenses in 1998 also reflected higher sales commissions and increased promotional activity including increased spending in trade shows and press tours.

Sales and marketing expenses increased \$2.3 million for 1997, reflecting the addition of sales and marketing personnel to support customers, develop new accounts and expand our business geographically. Higher sales and marketing expenses in 1997 also included increased commission expenses due to higher revenues, increased promotional activity, the production of sales material and the costs of trade shows and press tours.

General and Administrative

| | 1996 | 1997 | 1998 |
|---------------------------------|--------|---------|---------|
| General and administrative..... | \$ 477 | \$1,612 | \$2,169 |
| Percentage of revenue..... | 2.9% | 6.7% | 6.6% |
| % change from prior period..... | N/A | 237.9% | 34.6% |

General and administrative expenses increased \$557,000 for 1998. This increase reflected additional legal costs related to the negotiation and review of an increased number of contracts, an increase in patent submissions, tax planning and litigation expenses related to the Motorola lawsuit.

General and administrative expenses increased \$1.1 million for 1997, reflecting higher costs associated with the expansion of our infrastructure, including increased personnel required to implement and sustain a financial reporting structure and increased expenses resulting from the move to a larger facility.

Acquired In-Process Research & Development

| | 1996 | 1997 | 1998 |
|---|------|------|---------|
| Acquired in-process research & development..... | -- | -- | \$6,130 |
| Percentage of revenue..... | -- | -- | 18.6% |
| % change from prior period..... | N/A | -- | -- |

Upon completion of our acquisition of the Communications Systems Division in December 1998, we immediately expensed \$6.1 million, representing purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. The value assigned to purchased in-process technology, based on a percentage of completion discounted cash flow method, was determined by identifying research projects in areas for which technological feasibility has not been established. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate includes a risk-adjusted discount rate to take into account the uncertainty surrounding the successful development of the in-process technology. The valuation includes cash inflows from in-process technology through 2002 with revenues commencing in 1999 and increasing significantly in 2000 before declining in 2002. A royalty payment of 3% was assumed from in-process technology to existing technology, based on management's estimate of a patent license rate. The HIDRA and industrial modem projects were approximately 56% complete at the time of the valuation and the expected timeframe for achieving these product releases was assumed to be in the second half of 1999. The DSL project was approximately 56% complete at the time of the valuation and the expected timeframe for achieving this product release is assumed to be in early 2000. Significant remaining development efforts must be completed in the next six to 18 months in order for the projects of the Communications Systems Division to become implemented in a commercially viable timeframe.

Amortization of Deferred Compensation Expense

| | 1996 | 1997 | 1998 |
|--|-------|-------|-------|
| Amortization of deferred compensation expense..... | \$ 41 | \$ -- | \$ 43 |
| Percentage of revenue..... | 0.2% | -- | 0.1% |
| % change from prior period..... | N/A | -- | -- |

In connection with the grant of stock options to employees, we amortized \$43,000 in deferred compensation for the year ended December 31, 1998. There was no deferred compensation expense for the year ended December 31, 1997. The deferred compensation expense related to the grant of stock options to employees for the year ended December 31, 1996 was \$41,000.

Other Income (Expense), Net

| | 1996 | 1997 | 1998 |
|----------------------------------|--------|--------|--------|
| Other income (expense), net..... | \$ 127 | \$ 299 | \$ 479 |
| Percentage of revenue..... | 0.8% | 1.2% | 1.4% |
| % change from prior period..... | N/A | 135.4% | 60.2% |

Other income (expense), net, increased \$180,000 for 1998. The increase was due to higher average cash balances.

Provision for Income Taxes

| | 1996 | 1997 | 1998 |
|---------------------------------|---------|--------|---------|
| Provision for income taxes..... | \$1,005 | \$ 955 | \$ 212 |
| Effective tax rate..... | 25.1% | 29.3 % | 30.0 % |
| % change from prior period..... | N/A | (5.0)% | (77.8)% |

Provision for income taxes decreased \$743,000, or 77.8%, for 1998 due to lower gross profits, while the effective tax rate for 1998 remained at 30.0%.

Income taxes remained relatively constant for 1997 and 1996. The lower effective tax rate for 1996 was due to the benefit realized from net operating losses carried forward from our inception.

We have deferred tax assets on our balance sheet as of December 31, 1998 amounting to \$4.2 million. We believe that our expected effective tax rate will be below the statutory tax rate due to our research and development tax credits and the increase in international sales through our wholly owned subsidiaries.

Quarterly Results of Operations

The following table presents our operating results for each of the six quarters up to and including the period ended June 30, 1999. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited financial statements appearing elsewhere in this prospectus. In the opinion of management, all necessary adjustments consisting only of normal recurring adjustments, have been included to present fairly the unaudited quarterly results when read in conjunction with our audited Consolidated Financial Statements and the related notes appearing elsewhere in this prospectus. These operating results are not necessarily indicative of the results of any future period.

| | Quarter Ended | | | | | |
|--|------------------|------------------|-------------------|------------------|------------------|------------------|
| | Mar. 31, 1998 | June 30, 1998 | Sept. 30, 1998 | Dec. 31, 1998 | Mar. 31, 1999 | June 30, 1999 |
| Revenues..... | \$5,515 | \$6,828 | \$9,063 | \$11,598 | \$15,156 | \$17,890 |
| Cost of revenues..... | 2,533 | 3,415 | 4,902 | 3,028 | 7,926 | 9,071 |
| Gross profit..... | 2,982 | 3,413 | 4,161 | 8,570 | 7,230 | 8,819 |
| Operating expenses: | | | | | | |
| Research and development..... | 1,129 | 1,326 | 1,283 | 1,194 | 2,043 | 2,380 |
| Sales and marketing.... | 1,068 | 1,339 | 1,713 | 1,504 | 2,298 | 2,647 |
| General and administrative..... | 384 | 407 | 423 | 955 | 815 | 1,248 |
| Acquired in-process research and development..... | -- | -- | -- | 6,130 | -- | -- |
| Amortization of deferred compensation expense..... | -- | 10 | 17 | 16 | 16 | 148 |
| Total operating expenses..... | 2,581 | 3,082 | 3,436 | 9,799 | 5,172 | 6,423 |
| Operating income (loss)..... | 401 | 331 | 725 | (1,229) | 2,058 | 2,396 |
| Other income (expense), net: | | | | | | |
| Interest income..... | 106 | 148 | 140 | 110 | 116 | 187 |
| Interest expense..... | (5) | (6) | (6) | (8) | (453) | (442) |
| Total other income (expense), net..... | 101 | 142 | 134 | 102 | (337) | (255) |
| Income (loss) before provision for income taxes..... | 502 | 473 | 859 | (1,127) | 1,721 | 2,141 |
| Provision (benefit) for income taxes..... | 151 | 141 | 258 | (338) | 516 | 642 |
| Net income (loss)..... | \$ 351 | \$ 332 | \$ 601 | \$ (789) | \$ 1,205 | \$ 1,499 |

| | Quarter Ended | | | | | |
|--|------------------|------------------|-------------------|------------------|------------------|------------------|
| | Mar. 31, 1998 | June 30, 1998 | Sept. 30, 1998 | Dec. 31, 1998 | Mar. 31, 1999 | June 30, 1999 |
| Revenues..... | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenues..... | 45.9 | 50.0 | 54.1 | 26.1 | 52.3 | 50.7 |
| Gross profit..... | 54.1 | 50.0 | 45.9 | 73.9 | 47.7 | 49.3 |
| Operating expenses: | | | | | | |
| Research and development..... | 20.5 | 19.4 | 14.2 | 10.3 | 13.5 | 13.3 |
| Sales and marketing.... | 19.4 | 19.6 | 18.9 | 13.0 | 15.1 | 14.8 |
| General and administrative..... | 7.0 | 6.0 | 4.7 | 8.2 | 5.4 | 7.0 |
| Acquired in-process research and development..... | 0.0 | 0.0 | 0.0 | 52.9 | 0.0 | 0.0 |
| Amortization of deferred compensation expense..... | -- | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 |
| Total operating expenses..... | 46.9 | 45.1 | 37.9 | 84.5 | 34.1 | 35.9 |
| Operating income (loss)..... | 7.2 | 4.9 | 8.0 | (10.6) | 13.6 | 13.4 |
| Other income (expense), net: | | | | | | |
| Interest income..... | 1.9 | 2.2 | 1.5 | 1.0 | 0.8 | 1.1 |
| Interest expense..... | (0.1) | (0.1) | -- | (0.1) | (3.0) | (2.5) |

| | | | | | | |
|-------------------------|-------|-------|-------|--------|-------|-------|
| Total other income | ----- | ----- | ----- | ----- | ----- | ----- |
| (expense), net..... | 1.8 | 2.1 | 1.5 | 0.9 | (2.2) | (1.4) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before | | | | | | |
| provision for income | | | | | | |
| taxes..... | 9.0 | 7.0 | 9.5 | (9.7) | 11.4 | 12.0 |
| Provision (benefit) for | | | | | | |
| income taxes..... | 2.7 | 2.1 | 2.8 | (2.9) | 3.4 | 3.6 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net income (loss)..... | 6.3% | 4.9% | 6.7% | (6.8)% | 8.0% | 8.4% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Our quarterly operating results have varied significantly in the past and may vary significantly in the future depending on a number of factors, many of which are beyond our control. Our revenues have been negatively affected by market-wide delays in purchasing activities associated with the anticipated announcement by the ITU of the v.90 standard whereas our revenues have been positively affected by the market acceptance of our soft modems. We have also experienced seasonality in our quarterly operating results. A detailed discussion of these and other factors are described under Risk Factors elsewhere in this prospectus. Our gross profit for the fourth quarter ended December 31, 1998 was favorably impacted by the reversal of \$3.0 million in royalty reserves. Without considering the reversal, gross profit as a percentage of revenues would have been 48.0% in the fourth quarter of 1998.

Liquidity and Capital Resources

Six Months Ended June 30, 1998 and 1999

| | 1998 | 1999 |
|--|----------|----------|
| | ----- | ----- |
| Net cash provided by operating activities..... | \$ 1,080 | \$12,262 |
| Net cash used in investing activities..... | (149) | (6,980) |
| Net cash provided by (used in) financing activities..... | 4,756 | (1,018) |
| Cash and short-term investments at end of period..... | 12,988 | 23,534 |
| Working capital..... | N/A | 18,778 |

The increase in net cash provided by operating activities for the six months ended June 30, 1999 compared to 1998 was primarily due to better collection in accounts receivable due to the use of letters of credit and a higher net income in 1999. Net cash used in investing activities for the six months ended June 30, 1999 reflected the purchases of short-term investments, property and equipment, while net cash used in financing activities for the six months ended June 30, 1999 reflected the repayment of principal of the notes payable arrangements associated with the Communications Systems Division acquisition.

As of June 30, 1999, we had \$23.5 million in cash and cash equivalents and short-term investments and working capital of \$18.8 million. As of June 30, 1999, we had outstanding debt of \$15.5 million under notes payable arrangements which we will repay for \$15.7 million, including a prepayment penalty, following the closing of this offering.

Year Ended December 31, 1996, 1997 and 1998

| | 1996 | 1997 | 1998 |
|--|----------|--------|----------|
| | ----- | ----- | ----- |
| Net cash provided by operating activities..... | \$ 4,753 | \$ 917 | \$ 2,719 |
| Net cash provided by (used in) investing activities..... | (1,258) | 576 | (17,344) |
| Net cash provided by (used in) financing activities..... | 414 | (393) | 20,928 |
| Cash and equivalents at end of period..... | 5,585 | 6,685 | 12,988 |
| Working capital..... | 6,236 | 12,840 | 16,313 |

Since our inception through December 31, 1998, we have funded our operations primarily through the sale of convertible preferred stock and cash generated from operations. We received \$388,000 and \$5.0 million from the sale of convertible preferred stock in 1996 and 1998, respectively. Net cash provided by operating activities for 1996, 1997 and 1998 were \$4.8 million, \$917,000 and \$2.7 million, respectively. The decrease in net cash provided by operating activities for 1997 compared to 1996 was primarily due to increased working capital requirements associated with higher revenues as well as lower net income in 1997. The increase in net cash provided by operating activities for 1998 compared to 1997 was primarily due to higher net income before considering the write-off of acquired in-process research and development and also increased accruals.

Net cash provided by (used for) investing activities was \$(1.3) million, \$576,000 and \$(17.3) million for 1996, 1997 and 1998, respectively. Net cash provided by investing activities for 1997 reflected proceeds from the sale of short-term investments, net of purchases of property and equipment, while net cash used in investing activities for 1998 represented the Communications Systems Division acquisition, and purchases of property, plant and equipment. The timing and amount of future capital expenditures will depend primarily on our growth. Our principal commitments consist of leases for our office facilities as well as other general obligations under our capital leases. We anticipate that we will relocate to larger office facilities within the next six months and we expect to incur additional capital expenditures of approximately \$500,000 per year. We currently have no other material commitments for capital expenditures.

As of June 30, 1999, we had \$23.5 million in cash and cash equivalents and short-term investments and working capital of \$18.8 million. In December 1998, we became obligated under notes payable in the aggregate principal amount of \$16.3 million in connection with the acquisition of Communications Systems Division. We intend to repay these notes following the closing of this offering. In connection with these notes payable, we issued a warrant to purchase 200,000 shares of Series C preferred stock at an exercise price of \$8.00 per share. The warrants are immediately exercisable and expire ten years from the date of issuance. The fair value of the warrants at the date of the issuance was estimated to be \$1.4 million. We recorded the fair value of the warrants as a deferred charge which will be amortized over the term of the notes.

We believe that the net proceeds from the offering, together with existing sources of liquidity, will be sufficient to meet our working capital and anticipated capital expenditure requirements for at least the next 12 months. Thereafter, we may require additional funds to support our working capital requirements or for other purposes, and may seek, even before such time, to raise additional funds through public or private equity or debt financing or from other sources. Additional financing may not be available at all, and if it is available, such financing may not be obtainable on terms acceptable to us or that are not dilutive to our stockholders.

Recent Accounting Pronouncements

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position No. 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which we adopted in fiscal 1999. SOP No. 98-1 requires entities to capitalize certain costs related to internal-use software once certain criteria has been met. The adoption did not have a material impact on our financial position or results of operations.

In April 1998, the American Institute of Certified Public Accountants issued SOP No. 98-5 "Reporting on the Costs of Start-Up Activities," which we adopted in fiscal 1999. SOP No. 98-5 requires that all start-up costs related to new operations must be expensed as incurred. In addition, all start-up costs that were previously capitalized must be written off when SOP No. 98-5 is adopted. The adoption did not have a material impact on our financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires certain accounting and reporting standards for derivative financial instruments and hedging activities. We are subject to SFAS No. 133 for the first quarter beginning January 1, 2001. Because we do not currently hold any derivative instruments and do not engage in hedging activities, we do not believe that the adoption of SFAS No. 133 will have a material impact on our financial position or results of operations.

Qualitative and Quantitative Disclosures About Market and Interest Rate Risk

We are exposed to minimal market risks. We manage the sensitivity of our results of operations to these risks by maintaining a conservative investment portfolio, which is comprised solely of highly-rated, short-term investments. We do not hold or issue derivative, derivative commodity instruments or other financial

instruments for trading purposes. We are exposed to currency fluctuations, as we sell our products internationally. We manage the sensitivity of our international sales by denominating all transactions in U.S. dollars.

We may be exposed to interest rate risks, as we may use additional financing to fund additional acquisitions and fund other capital expenditures. The interest rate that we may be able to obtain on financings will depend on market conditions at that time and may differ from the rates we have secured in the past.

Year 2000 Compliance

We have completed our initial assessment of the potential overall impact of the impending century change on our business, financial condition and operating results. Based on our current assessment, we believe the current versions of our products are Year 2000 compliant. However, our products operate in complex network environments and directly or indirectly interact with a number of other hardware and software systems that we cannot adequately evaluate for Year 2000 compliance.

We may face claims based on Year 2000 problems in other companies' products, or issues arising from the integration of multiple products within an overall system. We have not been a party to any litigation or arbitration proceeding involving our products or services related to Year 2000 compliance issues. We may in the future be required to defend our products or services in such proceedings, or to negotiate resolutions of claims based on Year 2000 issues.

We have reviewed our internal management information and other critical business systems to identify any Year 2000 problems. We also have communicated with the external vendors that supply us with material software and information systems and with significant suppliers to determine their Year 2000 readiness. Based on our vendors' representations, we believe that the third-party hardware and software we use is Year 2000 compliant.

To date, we have not incurred any material costs directly associated with Year 2000 compliance efforts, except for compensation expense associated with salaried employees who have devoted some of their time to Year 2000 assessment and remediation efforts. We do not expect the total cost of Year 2000 problems to be material to our business, financial condition or operating results. However, during the months prior to the century change, we will continue to evaluate new versions of our products, new software and information systems provided by third parties and any new infrastructure systems that we acquire, to determine whether they are Year 2000 compliant. Despite our current assessment, we may not identify and correct all significant Year 2000 problems on a timely basis. Year 2000 compliance efforts may involve significant time and expense and unremediated problems could harm our business, financial condition and operating results. We currently do not have any estimate of potential costs related to potential Year 2000 problems. We currently have no contingency plans to address the risks associated with unremediated Year 2000 problems.

Overview

We are a leading developer and supplier of cost-effective software-based connectivity solutions. Our solutions enable Internet access and other communications applications through existing analog and emerging broadband networks. We have developed a proprietary software architecture that substantially reduces the hardware, space and power requirements of conventional hardware-based connectivity devices. Our software architecture is also easily upgradeable, minimizing the risk of technological obsolescence. Our communications products are designed to enable widespread Internet access and other communication applications through, desktop PCs, notebook computers and non-PC devices.

We are a pioneer in developing host signal processing technology, a proprietary set of algorithms that enables cost-effective software-based digital signal processing solutions. Host signal processing technology utilizes the computational and processing resources of a host central processing unit rather than requiring additional special-purpose hardware. The reduction of hardware components in our architecture reduces space requirements by 50% and power requirements by 70% compared to conventional solutions. The first implementation of our host signal processing technology was in a software modem, or soft modem, in 1995. Through June 1999, we have shipped 11.3 million soft modems. Based on our unit shipments in 1998, we believe we are the largest worldwide producer of soft modems, representing 68% of all soft modems sold that year, as estimated by Vision Quest 2000. We also believe that in 1998 we sold 6% of all analog modems estimated by Dataquest to have been 59.1 million units. Various OEMs, including Acer, Dell, emachines, Fujitsu and Sharp, have integrated our soft modems into their products.

We continue to innovate and expand upon our successful host signal processing architecture so that we can provide high speed connectivity solutions for broadband communications, including xDSL, cable and wireless communications. These emerging opportunities include connectivity solutions for client-side applications, enterprise servers, service providers and industrial markets. We have extended our host signal processing architecture and have developed a G.Lite solution, LiteSpeed, that enables downstream broadband data transmission speeds of up to 1.5 Mbps and upstream broadband data transmission speeds of 512 Kbps over existing copper telephone lines. We expect to begin shipments of this product in the first half of 2000.

We also have developed an embedded solution for non-PC devices that either do not use a central processing unit or lack the excess processing capacity necessary to support our host signal processing solution. These devices include Internet appliances, such as set-top boxes and webphones, video game consoles and remote monitoring devices. By offering reductions in size, cost and power consumption, we also believe that this solution is ideal for service providers and server-side applications such as single and multi-port remote access servers and concentrators.

We enhanced our position as an intellectual property leader with the acquisition of our Communications Systems Division from General DataComm, Inc. in the fourth quarter of 1998. As a result of this acquisition and our own intellectual property development efforts, we hold 32 patents, a number of which cover technology that is considered essential for International Telecommunication Union, or ITU, standard communications solutions. We also have 26 additional patent applications pending or filed.

Industry Overview

In recent years, dramatic increases in business and consumer demand for multimedia information, entertainment and voice and data communication have resulted in a corresponding increase in demand for high speed remote access. The accelerated growth of content-rich applications, which require high bandwidth, has changed the nature of information networks. High-speed connectivity is now a requirement for business, government, academic and home environments. Businesses, ranging from large and small corporate enterprises to home offices, are increasingly dependent upon data networks, not only for communication within the office, but also to exchange information among corporate sites, remote locations, telecommuters, business partners,

suppliers and customers. Consumers are also increasingly accessing data networks such as the Internet to communicate, collect and publish information and conduct retail purchases.

These market trends have resulted in a significant increase in the demand for connectivity devices. International Data Corporation estimates that by 2003, the number of Internet connectivity devices will grow to over 722 million.

Analog Connectivity Solutions

Although there has been significant publicity given to broadband connectivity, the majority of Internet access is still through dial-up, or analog, connections. Analog technology converts digital data into an analog signal for transmission over telephone networks, and executes the reverse analog-to-digital signal conversion to enable the host device to receive the transmitted data. Analog modems, which, according to Dataquest, comprised 90% of the modem market in 1998, are primarily utilized by PC devices. Dataquest estimates that 59.1 million analog modems were sold in 1998, and expects this number to reach 74.8 million units in 2001. Although the number of analog modems is expected to grow in the near future, new technologies have emerged to address the volume of bandwidth intensive data and demand for enhanced multimedia capabilities.

Broadband Connectivity Solutions

The data transmission constraints of copper telephone wires have led the communications industry to focus on broadband communications. In order to address the demand for high-speed connectivity, telecommunications service providers have developed and deployed cost-effective technologies in their networks. However, the lack of ubiquitous low-cost, high-bandwidth connectivity from the backbone network to the customer premises has been the underlying issue preventing the majority of the market from taking advantage of the array of high-bandwidth network services. Although the broadband access market is underdeveloped, its potential size has attracted a high level of attention. Telephone, cable and satellite companies each have different strategies and capabilities for providing this broadband connectivity to the Internet. Each has its advantages based on price, performance and availability.

Digital Subscriber Line. DSL utilizes the ubiquitous, existing public switched telephone network, or PSTN, infrastructure, without the need for expensive additions and upgrades. DSL technologies dramatically increase the data transmission capacity of standard telephone lines and are expected to enable a wide range of new services including high speed Internet access and digital television. Most of the businesses and homes today are connected to the PSTN by twisted-pair copper wire. It is estimated that there are nearly 700 million copper wire access lines in existence today worldwide, and that more than 95% consist of a single twisted-pair copper wire.

A wide array of DSL technologies known as xDSL products are rapidly emerging. The "x" in xDSL represents the various kinds of digital subscriber line technologies. Each type of DSL has distinguishing advantages and disadvantages, depending on a variety of bandwidth and deployment features suitable for different applications. DSL is either symmetric, which delivers the same data rate both downstream and upstream, or asymmetric, which delivers faster data rates downstream than upstream. The other distinguishing feature is the data rate itself. DSL technologies allow for the transmission of data at speeds ranging from 128 Kbps to 52 Mbps depending on the distance between the central office and the subscriber. Common types of DSL technologies include:

ADSL. Asymmetric digital subscriber line, or ADSL, allows more bandwidth downstream than upstream. This asymmetry, combined with "always-on" access, makes ADSL ideal for Internet surfing, video-on-demand and remote local area network access. Users of these applications typically download much more information than they send. In order to implement an ADSL solution, a splitter, which is a device that separates the voice signal from the data signal, must be installed both at the head-end and at the customer's premises. This process of installing splitters for each subscriber means a service truck needs to be sent to each customer site in order to initiate service. This process is expensive and time consuming

and ultimately slows the overall service deployment. ADSL provides speeds up to 8 Mbps downstream and up to 1 Mbps upstream, depending on the line conditions and the length of the loop.

G.Lite. G.Lite is a lower-speed version of ADSL that will eliminate the need for the service provider to install a splitter at the customer's premises. G.Lite allows for a downstream data transmission rate of up to 1.5 Mbps and an upstream data transmission rate of up to 512 Kbps, and is expected to be as simple as the "plug-and-play" nature of traditional, analog dial-up modems.

G.SHDSL. Single-pair HDSL, or G.SHDSL, requires only a single copper twisted-pair and has a maximum loop length of 10,000 feet from the telephone company's central office. G.SHDSL can offer symmetrical data transmission rates of up to 1.544 Mbps. Since G.SHDSL uses only one copper twisted-pair, the capacity of existing infrastructure is greatly increased.

VDSL. Very-high-bit-rate digital subscriber line, or VDSL, technology is the fastest DSL technology, supporting a maximum downstream rate of 52 Mbps and an upstream rate of 10 Mbps over a single copper twisted-pair wire. The one limitation of VDSL is that the maximum loop length is only between 1,000 and 4,500 feet from the telephone company's central office.

Wireless. The main alternatives in wireless broadband access are wireless and broadband satellite. Wireless provides advantages over wireline, the primary benefits being speed and ease of installation. The strength of wireless is that it can quickly provide high-speed Internet access within a 10, 20 or 35 mile radius depending on the frequency band used. In the next several years, wireless is expected to help unlock broadband competition thereby enabling new operators to bypass existing wireline networks and deliver local and long distance telephone service and Internet access services.

Cable Modems. Designed to provide broadband Internet access, cable modems are targeted primarily at the consumer market. Cable lines pass by more than 100 million North American homes, but only 20% of those homes can now get cable modem service. Cable lines offer downstream transmission speeds of up to 36 Mbps and upstream transmission speeds of up to 10 Mbps. In order to fully realize the benefits of two way communications, cable operators must upgrade their networks to improve the provisioning of existing cable services and to support high-speed data and other new services.

Non-PC Connectivity

While existing Internet connectivity devices are primarily PC-based, development of enabling technologies and the growth in consumer dependence are spurring the deployment of non-PC devices. These devices include Internet appliances such as set-top boxes and webphones, video game consoles and remote monitoring devices. International Data Corporation predicts that as many as 42% of all Internet access devices will be in the form of non-PC devices by 2001. However, it is difficult to integrate modem functionality into these compact devices due to the limited availability of power and space.

Server-Side

As the number of connectivity devices increases, service providers will be required to increase the number of server-side access ports to ensure reliability and quality service for their customers. Presently, communications equipment providers are limited to using either expensive multiport chips or a single modem port per chip. Internet service providers and other service providers who locate their server-side equipment at the telephone companies' central offices do not have the space or power available to accommodate the expected growth in demand for client-side access. Service providers are demanding connectivity solutions that increase the density of modem ports per chip while reducing cost, space and power requirements.

Evolution from Hardware to Software-based Connectivity Solutions

The rapid development of emerging technologies for broadband access combined with changing industry standards and protocols is driving manufacturers to turn towards software-based connectivity solutions as

opposed to conventional hardware connectivity solutions. Further, trends such as the acceptance of alternative access devices, the significant increase in available processing power, cost reduction pressures and space and power constraints have permitted software-based products to emerge as viable and cost-effective alternatives.

One of the primary reasons that PC manufacturers have been better able to utilize software-based solutions has been the dramatic increase in central processing unit processing power. Prior to the introduction of Intel's 266 MHz Pentium II processor, most PCs lacked the processing power required to effectively utilize software-based connectivity solutions. By 1998, a majority of the PCs shipped were equipped with CPUs equivalent to or exceeding the processing power of Intel's 350 MHz Pentium II. This significant increase in processing power is expected to continue into the future as demonstrated by Intel's announcement of its intention to deliver 1.0 GHz processors by 2001. With microprocessor performance continuing to rapidly increase, technologies that support software algorithms running off the central processing unit, rather than on extraneous hardware, will become increasingly valuable and feasible.

Another significant trend driving the growth of software-based solutions is the increasing pressure on OEMs to reduce costs. With the market acceptance of low-cost, or sub-\$1,000, PCs and a general decline in PC selling prices, OEMs are demanding further price reductions, from suppliers of central processing units and motherboard manufacturers. As a result, central processing unit suppliers and motherboard manufacturers are increasingly employing software-based solutions as a cost-effective way to meet these demands. This response eliminates additional, special purpose hardware and replaces it with integrated software. As a result, Cahners In-Stat estimates analog soft-modem annual sales will grow from five million units in 1998 to over 40 million units by 2000.

Software-based solutions are also increasingly utilized to address the power and space requirements of non-PC devices. The limited availability of power and space in these devices has hindered the successful integration of hardware-based modem functionality. Because soft modems shift processing capacity into software and, thus, significantly reduce power and space constraints, they are increasingly integrated as a critical part in the development of the non-PC device market.

PC-Tel Solution

We are a leading developer and supplier of cost-effective software-based connectivity solutions that address Internet access and other communications through existing analog and emerging broadband networks. These solutions are based on our proprietary software algorithms which enable the movement of core signal processing capabilities out of hardware and into software. Our host signal processing architecture allows us to develop connectivity solutions that provide significant benefits over traditional hardware-based solutions, including:

Extensibility and Scaleability. Our host signal processing architecture allows us to quickly and cost-effectively develop new products to capitalize on rapidly growing market segments. We believe that we can use our intellectual property portfolio to readily adapt to the speed and design requirements of additional emerging connectivity technologies. For example, in response to growing market acceptance, we have developed a host signal processing architecture solution for G.Lite, which we call LiteSpeed, that enables downstream data transmission speeds of up to 1.5 Mbps and upstream data transmission speeds of up to 512 Kbps over existing copper telephone lines. As the broadband market develops, we believe we can capitalize on our proprietary technology to continue the cost-effective migration from hardware into software.

Cost Effectiveness. By shifting the composition of connectivity devices from hardware into software, we are able to significantly reduce the hardware required in conventional connectivity solutions. Our proprietary software-based solution eliminates extraneous hardware and reduces our customers' manufacturing costs, while still offering superior or comparable performance. For example, our host signal processing technology eliminates as much as 40% of the hardware used in conventional connectivity solutions.

Upgradeability, Adaptability and Flexibility. The software component of our architecture is upgradeable, minimizing the risk of technological obsolescence. By embedding core functionality in software, performance upgrades and the adaptation to new standards and protocols can be accomplished quickly and easily through software downloads rather than through costly replacements of existing hardware. For example, customers who purchased our 33.6K modems are able to easily upgrade the product to an ITU-compliant 56K modem through a simple software download. Ease of upgradeability is of considerable value in the rapidly changing communications marketplace and a substantial competitive advantage over conventional connectivity solutions. In addition, our LiteSpeed DSL technology will also provide a similar capability in offering an end-user the ability to easily upgrade to higher bandwidth services. Further, our G.Lite technology is completely compatible with analog transmission networks, offering the user complete flexibility in choosing access technology and transmission speed. By providing connectivity solutions that can be easily adapted to new standards and protocols, we reduce interoperability obstacles, which simplifies purchasing decisions and accelerates deployment times for OEMs.

Reduced Space and Power Requirements. The reduction of hardware components enabled by our host signal processing architecture provides the dual benefits of 50% reduced space and 70% lower power requirements compared to conventional solutions. These benefits enable connectivity capabilities in non-PC devices that are difficult to implement with conventional hardware-based solutions. In addition, the efficiency of our proprietary algorithms increases the modem port density per chip in server-side devices, reducing power requirements and heat generation.

PC-Tel Strategy

PC-Tel's goal is to be the leading provider of cost-effective software-based connectivity solutions that enable Internet access and other communication applications through existing analog and emerging broadband networks. Key elements of our strategy include:

Target Emerging High-Growth Communications Technologies. We identify emerging high-growth communications technologies and develop innovative software-based connectivity solutions to capitalize on these new market opportunities as they gain acceptance. Our software-based technology is extensible, allowing us to quickly and cost-effectively develop new applications. We have recently leveraged our core technologies to design and develop a fully functional software-based G.Lite solution, LiteSpeed. In addition, we are currently developing implementation options for extending HSP technology into the emerging wireless data network market, which includes devices that offer high speed access to Internet connections as well as wireless connections to computing on Internet devices within homes and businesses. We believe that our communications technology will enable us to develop significant applications in the broadband modem markets.

Continue To Enhance Software-Based Solutions. We are committed to enhancing the scope of our host signal processing technology to further reduce the number of hardware components in our software-based solutions. We believe that our success in minimizing the hardware content of our soft modems will continue to enhance our ability to address emerging markets in non-PC devices that require smaller designs and reduced power consumption. This reduction of hardware content provides numerous benefits for our OEM customers, including:

- . reducing costs,
- . decreasing board space,
- . decreasing inventory,
- . minimizing technological obsolescence,
- . accelerating time to market, and
- . streamlining production flow.

In addition, because of the software-based functionality of our products, we have developed a core expertise in ensuring the compatibility of our host signal processing products with multiple operating systems including Linux, OS/2, Windows 3.1, 95, 98, 2000, NT and CE, and VxWorks.

Enable Migration to Emerging Communications Technologies. We aim to develop innovative products based on our host signal processing architecture that enable existing platforms to migrate to emerging broadband communications technologies. The current level of processing power available in PCs and non-PC devices does not support the amount of signal processing calculations required for higher speed broadband applications without overloading the central processing unit. For these applications, we have developed an accelerated host signal processing architecture that adds low-cost, application-specific hardware to efficiently handle a portion of the signal processing load. Accelerated host signal processing architecture enables us to deliver an ideal platform from which to migrate to a full host signal processing solution for next generation devices.

Extend Our Intellectual Property Leadership Position and Establish Industry Standards. We are actively extending our intellectual property position through rapid internal development, strategic acquisitions and licensing of innovative communications technology. We hold 32 patents, with an additional 26 patents pending. We are actively pursuing the filing of additional patent applications to cover our intellectual property advancements. We believe that these intellectual property advancements will optimize the performance, efficiency and cost of our software-based connectivity solutions. Our intellectual property leadership position allows us to establish industry standards so that we can be well positioned to implement leading-edge second generation connectivity solutions in technologies in advance of our competitors.

License Proprietary Digital Signal Processing Solutions. We are developing and intend to license reference designs for digital signal processing communications applications in non-PC devices. By using low cost digital signal processing chips coupled with our software-based technology, we are providing enhanced throughput and capacity per chip. In addition, because our digital signal processing algorithms are highly efficient, we can enable cost savings by reducing space requirements, lowering power consumption and port density for remote access.

Products

Current Products

In the fourth quarter of 1998, we began shipping our newest product, the MicroModem. This product integrates our host signal processing technology with a micro form-factor DAA. Our patented MicroModem features reduce power and size requirements and replace approximately 90 discrete hardware components with two mini DAA chips. The MicroModem has recently been certified as being compatible with the telecommunications standards of most industrialized countries, allowing OEMs to accomplish seamless global interoperability.

As illustrated in Figure 1 below, in contrast to the conventional hardware modem, our host signal processing soft architecture replaces the memory chip, digital signal processing chip, universal asynchronous receiver and transmitter, or UART, and controller chip with customized software that draws upon the excess capacity of the host central processing unit. A single proprietary Application Specific Integrated Circuit, or ASIC, acts as interface between the analog and digital data. We have further reduced the cost, size and design effort required for standardized worldwide PC modem use by using an integrated Data Access Arrangement, or DAA, and a coder/decoder, or CODEC. This integration reduces the number of components in a conventional DAA by approximately 40%.

FIGURE 1--CONVENTIONAL DSP vs. HSP MODEM ARCHITECTURE

Schematic with two boxes. Caption is "Modem Evolution". First box describes a traditional hardware modem, second box describes PCTel's soft modem. Bottom text caption "CODEC--performs analog-to-digital and digital-to-analog signal conversions", "DAA--Data Access Arrangement interfaces and protects the modem with the telecommunications network.", "CONTROLLER--controls data and error compression function.", "DATAPUMP--performs modulation and demodulation calculations.", "Memory--handles the data buffering.", "UART--Universal Asynchronous Receive Transmit synchronizes incoming and outgoing data.", "INTEGRATED SILICON DAA and CODEC--Direct Access Arrangement interfaces and protects the modem with the telecommunications network while the CODEC performs analog-to-digital and digital-to-analog conversion."

Next Generation Products

We are currently focusing our design and development efforts in the following application areas:

| Next Generation Technology | Product Description |
|----------------------------|---|
| G.Lite | We have developed a G.Lite solution, LiteSpeed, to address the demand for DSL connectivity. LiteSpeed uses less power and space and costs less than conventional solutions for G.Lite. We expect to commercially release this product in the first half of 2000. |
| USB External Modem | We have developed our first external modem, which connects through the Universal Serial Bus, or USB, interface. The USB is an open specification developed to advance the use of peripheral devices with personal computers. Major PC manufacturers now ship machines with USB enabled hardware predominantly to Europe due to the continent's differing telephony standards. We believe that our external modem will allow us to capture significant revenue opportunities in the peripheral device market. |
| Home Networking | The number of private homes with multiple PCs or multiple devices, such as printers, scanners and notebook computers, has reached a critical mass, driving consumer demand for home networking and shared Internet access. In order to capitalize on this emerging market opportunity, we are working with a silicon supplier to include our soft modem on a processor which will deliver home networking functionality. |
| Industrial Modem | We are developing a small hardware platform for the non-PC market. This platform uses one low cost digital signal processor and our software performs both the controller and the digital signal processing functions. The v.34 version of our industrial modem is currently being tested. |
| Remote Access Solution | We are developing a reference design to deliver the functionality of six modem ports per digital signal processing chip in a server-side modem solution. Our innovative design would reduce power, cost and space requirements to nearly one-sixth of those used today by providing alternatives to expensive chips or a single modem port per chip. We intend to license our design to the leading companies in the growing remote access solution marketplace, the first version which will support three modems per DSP and is currently being tested. |

Emerging Product Opportunities

In addition to our products currently under development, we continue to explore emerging opportunities in the area of broadband communications.

| Emerging Opportunities | Product Description |
|------------------------|---|
| Wireless | |
| Wireless Protocols | Our HSP technology can be applied to various wireless standards. We expect that the wireless solutions which can take advantage of HSP architecture are optimal for customers with capacity requirements between 19.2 Kbps today, and up to 10 Mbps in the near future. We are currently developing software enhancements to our products in order to enable their use in wireless environments with speeds of up to 384 Kbps by the end of 2000. |
| xDSL | |
| ADSL (G.DMT) | We expect to begin developing a G.DMT modem in 2000 which will provide downstream transmission speeds of up to 512 Kbps and upstream transmission speeds of up to 8 Mbps. G.DMT is a full-rate ADSL standard and is being endorsed by the ITU as a worldwide standard. |
| G.SHDSL | G.SHDSL modems will offer both downstream and upstream transmission speeds of up to 1.5 Mbps. We have initiated design and simulation studies for this product. These efforts will position us to pursue the G.SHDSL opportunity as it becomes widely adopted. |
| VDSL | We intend to develop a VDSL modem once VDSL technologies become more fully deployed. We expect that this technology will provide downstream transmission speeds of up to 52 Mbps and upstream transmission speeds of up to 10 Mbps. |
| Server Side | |
| VPN Controller | Our VPN Controller project is expected to enhance HIDRA by integrating additional functionality to support virtual private networks, or VPNs. The key to maximizing the value of a VPN is the ability for companies to upgrade their VPNs as their business needs change. |
| VOIP | The Voice Over Internet Protocol, or VOIP, project is expected to enhance the HIDRA solution by integrating voice capability into the HIDRA infrastructure such that HIDRA will be able to provide VOIP gateway functionality. HIDRA will implement voice compression and packetization along with the signaling and addressing gateway functions required for a complete VOIP solution. |
| Cable | |
| Cable Modem | Cable modems connect PCs to the cable network and offer downstream transmission speeds of up to 36 Mbps and upstream transmission speeds of up to 10 Mbps. We are researching cable technology to follow advancements and will undertake an HSP cable modem development if and when our studies show a significant advantage over existing technologies. |

Intellectual Property Licensing

We also offer our software-based solutions through intellectual property licensing and product royalty arrangements. Current licensees of our intellectual property, principally ITU-standard technology, include modem and semiconductor manufacturers, such as Conexant, Texas Instruments and U.S. Robotics, and RISC processor manufacturers including Hitachi, Intel and NEC.

Customers

We sell our products directly and indirectly to the following principal distributors and customers:

| Distributors | Modem Board Manufacturers | Motherboard Manufacturers | PC OEM Companies | Systems Integrators | Embedded Systems Integrators |
|--------------|------------------------------|------------------------------|---------------------|------------------------|------------------------------------|
| Golden Way | Amigo | Asus | Acer | CTX | Casio |
| InnoMicro | Askey Computer | Chaintech | Dell | Everex | Fujitsu |
| Silicon | | | | | |
| Application | Aztech | FIC | emachines | MicroCenter | Intel |
| Corporation | BTC | Shuttle | Fujitsu | Mitsuba | NEC |
| | E-Tech | Talent Trade Asia | Mitac | Tiny | Yamaha |
| | Zoltrix | | Sharp | | |
| | | | TriGem | | |
| | | | TwinHead | | |

For the six months ended June 30, 1999, revenues derived from sales to customers Talent Trade Asia, TriGem and Silicon Application Corporation accounted for approximately 42%, 20%, and 10%, respectively, of product sales. For the year ended December 31, 1998, revenues derived from sales to customers Silicon Application Corporation, BTC, Askey Computer and Zoltrix accounted for 15%, 13%, 12% and 12%, respectively, of our product sales. No other customers represented more than 10% of our product sales for these periods.

Sales, Marketing and Support

We sell our products directly to modem board and motherboard manufacturers who assemble and distribute the end product both directly to OEMs and systems integrators and indirectly through distributors. In the United States, we primarily sell our products through direct sales. In Taiwan, we sell our products through distributors such as Golden Way and Silicon Application Corporation, and in Japan, through distributors such as InnoMicro. In many cases, modems are manufactured by third parties on behalf of the final brand name OEM. We focus on developing long-term customer relationships with our direct and indirect customers. In many cases, our indirect OEM customers specify that our products be included on the modem boards or motherboards that they purchase from board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect OEM customers.

We employ a direct sales force with a thorough level of technical expertise, product background and industry knowledge. Our sales force includes a highly trained team of application engineers to assist customers in designing, testing and qualifying system designs that incorporate our products. Our sales force also supports the sales efforts of our distributors. We believe the depth and quality of our sales support team is critical to:

- . achieving design wins,
- . improving customers' time to market,
- . maintaining a high level of customer satisfaction, and
- . engendering customer loyalty for our next generation of products.

Our marketing strategy is focused on further building market awareness and acceptance of our new products. We market our products directly to both prospective and existing customers. Additionally, we undertake broad scale marketing programs in conjunction with key local and global partners. Our marketing organization also provides a wide range of programs, materials and events to support the sales organization.

As of June 30, 1999, we employed 54 individuals in sales, marketing and support and maintained regional sales support operations in Tokyo, Japan, Taipei, Taiwan and Paris, France.

Research and Development

We recognize that a strong technical base is essential to our long term success and have made a substantial investment in research and development. We will continue to devote substantial resources to product development and patent submissions. We monitor changing customer needs and work closely with our customers, partners and market research organizations to track changes in the marketplace, including emerging industry standards. As an example of our commitment to technical leadership, we have developed expertise in the following major areas:

- . Digital Signal Processing Algorithms. This expertise enables us to recognize ongoing revenue from the licensing of our reference designs, as well as further optimization for our software digital signal processing implementations.
- . Software Digital Signal Processing. This expertise has allowed us to provide the modem data pump functionality in the form of software. An expensive and power consuming digital signal processing chip is no longer needed.
- . Modem Protocol. This expertise has enabled us to develop software containing the necessary error correction and data compression protocols such as v.42, v.42bis, MNP 2-5, Soft ATM and SAR.
- . Telecommunications Infrastructure Interface. This expertise has allowed us to develop the software connection to the public telephone network through relays and the DAA. This portion of the software also performs the functionality of the UART, controller and memory while eliminating significant amounts of hardware.
- . Microsoft Windows Device Drivers. We have developed software expertise in working within the Windows environment. The interrupt-driven architecture of Windows operating systems presents many difficulties for software-based connectivity solutions, including latency and other technical issues. We have patented these solutions.
- . Central Processing Units and Operating Systems. We have demonstrated our expertise in porting our soft modem solution to all Windows operating systems, including Windows NT and Windows CE, in addition to other operating systems, such as OS/2, VXWorks and Linux. We have also ported our technology to various high performance processor platforms, such as those from Advanced Micro Devices, Cyrix, ARM, Intel StrongARM and MIPS. Expertise in these systems, which are utilized in embedded systems applications, allows us to integrate our technology into devices such as Internet appliances.
- . Host Signal Processing Architecture. We have leveraged our leadership in host signal processing and extended the architecture to include innovations such as accelerated host signal processing, which will be used in our future G.Lite product. This modification delivers maximum software content along with any required application-specific hardware to deliver the most cost-effective solution in the market.

These multiple areas of expertise represent distinct disciplines which are combined in one unique cross-functional development team. Communications Systems Division, which we acquired in December 1998, provides us with additional areas of expertise, including the experience of successfully introducing intellectual property for inclusion into ITU standards. We believe these technical and organizational skills provide us significant competitive advantages. As of June 30, 1999, we employed 58 employees in research and development, 36 of whom have advanced degrees, including nine who have earned PhDs.

Manufacturing

We outsource the manufacturing of our ASIC, CODEC and DAA chips to independent foundries in order to avoid significant fixed overhead, staffing and capital requirements associated with semiconductor fabrication.

Our primary chipset suppliers are Delta Integration, Kawasaki/LSI, ST Micro Electronics, Silicon Labs and Taiwan Semiconductor Manufacturing Corporation. The major operations of each of these manufacturers meet ISO-9001 international manufacturing standards. Our DAA chips are currently purchased from Silicon Labs on a purchase order basis. We have a limited guaranteed supply of DAA chips through a long-term contract arrangement with Silicon Labs. We have no guaranteed supply or long-term contract agreements with any other of our suppliers.

Licenses, Patents and Trademarks

We seek to protect our technology through a combination of patents, copyrights, trade secret laws, trademark registrations, confidentiality procedures and licensing arrangements. We hold a total of 32 patents and also have 26 additional patent applications pending or filed. We believe that our patent portfolio is one of the largest in the analog modem market. To supplement our proprietary technology, we have licensed rights to use patents held by third parties.

Our industry is characterized by frequent litigation regarding patent and other intellectual property rights. We have been sued by Motorola, Inc. and by ESS Technology on patent related claims. See "Business--Legal Proceedings" and "Risk Factors--We have been sued by Motorola for patent infringement. If this litigation resolves unfavorably to us, our business is likely to be harmed," and "--Other third parties may also assert that our products infringe their intellectual property rights."

In addition, there are numerous risks that result from our reliance on our proprietary technology in the conduct of our business. See "Risk Factors--We rely heavily on our intellectual property rights which offer only limited protection against potential infringers. If we cannot protect these rights, this could adversely affect our business."

Competition

The connectivity device market is intensely competitive. Our current competitors include 3Com, Conexant, ESS Technology, Lucent Technologies and Motorola. Motorola introduced soft modems in the third quarter of 1998 and Conexant introduced soft modems in the fourth quarter of 1998. We expect competition to increase in the future as current competitors enhance their product offerings, new suppliers enter the connectivity device market, new communication technologies are introduced and additional networks are deployed.

We may in the future also face competition from other suppliers of products based on host signal processing technology or new or emerging communication technologies, which may render our existing or future products obsolete or otherwise unmarketable. We believe that these competitors may include Analog Devices, Alcatel, Aware, Broadcom, Com21, Efficient Networks, Orckit, Terayon Communications and Texas Instruments.

Compared to us, many of our competitors, including those described above, have:

- . longer operating histories with more experience in designing and selling connectivity device products and services,
- . greater presence in our connectivity device markets, which can provide an immediate advantage in marketing new product introductions,
- . greater name recognition, which can facilitate customer acceptance of new products and technologies,
- . access to a larger customer base,
- . substantially greater financial resources, which could enable a competitor to significantly reduce the price of new products below prevailing market rates to capture market share,
- . significantly greater research and development and other technical resources, which may enable a competitor to respond more quickly to new or emerging technologies and changes in customer requirements, or to introduce new products that are superior to our products, and

- . significantly greater sales and marketing resources to devote to the promotion, sale and support of competitive products which could be deployed to overcome business challenges.

We believe that the principal competitive factors required by users and customers in the connectivity device market include compatibility with industry standards, price, functionality, ease of use and customer service and support. We believe that our products currently compete favorably with respect to these factors.

Employees

As of June 30, 1999, we employed 125 people full-time, including 54 in sales and marketing, 58 in research and development, and 13 in general and administrative functions. Over 50% of our employees have advanced degrees, with 10 having earned doctoral level degrees. None of our employees is represented by a labor union. We consider our employee relations to be good.

Properties

Our administrative offices are located in San Jose, California, where we currently lease approximately 32,000 square feet under a lease that expires in 2001. Our Communications System Division is located in Waterbury, Connecticut, where we currently lease approximately 6,000 square feet under a lease that expires in 2001. We also have a lease in Taipei, Taiwan for approximately 3,000 square feet which expires in 2002 and a lease in Tokyo, Japan for approximately 700 square feet which expires this June. We anticipate that we will relocate to larger office facilities within the next six months.

Legal Proceedings

We have been sued by Motorola, Inc., for patent infringement in an action filed in the fall of 1998. See "Risk Factors--We have been sued by Motorola for patent infringement. If this litigation resolves unfavorably to us, our business is likely to be harmed."

In April 1999, ESS Technology Inc. filed a complaint against us in the U.S. District Court for the Northern District of California, alleging that we failed to grant licenses for some of our ITU-related patents to ESS on fair, reasonable and non-discriminatory terms. ESS's complaint includes claims based on antitrust law, patent misuse, equitable estoppel, breach of contract mandating specific performance and unfair competition. In its complaint, ESS also seeks a declaration that some of our ITU-related patents are unenforceable and that we should be ordered by the court to grant a license to ESS on fair, reasonable and non-discriminatory terms.

Due to the nature of litigation generally and because the lawsuit brought by ESS is at an early stage, we cannot ascertain the outcome of the final resolution of the lawsuit, the availability of injunctive relief or other equitable remedies, or estimate the total expenses, possible damages or settlement value, if any, that we may ultimately incur in connection with ESS's suit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. However, we believe that we have valid defenses to this litigation, including the fact that other companies license these ITU-related patents from us on the same terms that are being challenged by ESS. We believe that it is unlikely this litigation will have a material adverse effect on our financial condition or results of operations. We are vigorously contesting, and intend to continue to vigorously contest, all of ESS's claims. See "Risk Factors--Other third parties may also assert that our products infringe their intellectual property rights."

MANAGEMENT

Executive Officers and Directors

The following table sets forth information with respect to the executive officers and directors of PC-Tel as of August 2, 1999.

| Name | Age | Position |
|---------------------------------|-------|--|
| - - - - - | - - - | - - - - - |
| Peter Chen..... | 44 | Chief Executive Officer, Chairman of the Board |
| William F. Roach..... | 55 | President and Chief Operating Officer |
| Andrew D. Wahl..... | 50 | Vice President, Finance, Chief Financial Officer |
| Steve Manuel..... | 34 | Vice President, Marketing |
| Frank Reo..... | 54 | Vice President, Business Development |
| William Wen-Liang Hsu.... | 44 | Vice President, Engineering, Director |
| Han Yeh..... | 45 | Vice President, Technology, Director |
| Derek S. Obata..... | 41 | Vice President, Sales |
| Richard C. Alberding(1)(2)..... | 68 | Director |
| Martin H. Singer(2)..... | 48 | Director |
| Wen C. Ko..... | 50 | Director |
| Giacomo Marini(1)..... | 47 | Director |
| Mike Min-Chu Chen..... | 50 | Director |

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(1)Member of audit committee
(2)Member of compensation committee

Mr. Peter Chen co-founded PC-Tel in March 1994 and has served as Chief Executive Officer and Chairman of the Board, since PC-Tel's inception. Mr. Chen is also the cousin of one of our directors, Dr. Mike Min-Chu Chen. Mr. Chen has over 14 years experience in data communications and modem development at Digicom Systems, Inc. (a company which he co-founded), Cermetek, Inc., and Anderson-Jacobson, Inc., all data communications companies. Mr. Chen has a Bachelor of Science in Control Engineering from National Chiao-Tung University, Taiwan, and holds a Master of Science in Electrical Engineering from Arizona State University.

Mr. William F. Roach has been the President and the Chief Operations Officer of PC-Tel since August 1999. From January 1997 until joining PC-Tel, Mr. Roach served as a Senior Vice President, Worldwide Sales and Marketing for Maxtor Corporation, a data storage company, from November 1996 to January 1997 as Executive Vice President for Worldwide Marketing for Wyle Electronics, an electronic component distribution company, and from 1989 to November 1996, as Executive Vice President, Worldwide Sales, for Quantum Corporation, a data storage company. Mr. Roach received a Bachelor of Science in Industrial Economics from Purdue University.

Mr. Andrew D. Wahl has been the Vice President of Finance and Chief Financial Officer of PC-Tel since January 1997. From March 1995 to April 1996, Mr. Wahl served as Chief Financial Officer and, from April 1996 to January 1997, as President and Chief Executive Officer for Designs for Education, Inc., an apparel company. From 1993 to March 1995, Mr. Wahl served as Chief Financial and Operations Officer for StarBase Corporation, an object-oriented database developer. Prior to that, Mr. Wahl held various senior positions in general management, finance and management consulting. Mr. Wahl received a Bachelor of Arts in Political Science from Villanova University and a Master in Business Administration in Accounting from Rutgers University.

Mr. Steve Manuel has been Vice President of Marketing of PC-Tel since September 1997. Prior to that, Mr. Manuel served as Vice President of Sales between January 1997 and September 1997. From March 1992 to June 1995 he worked at Logitech, Inc., a computer input devices company, where he served as the Strategic OEM Account Development Manager and the Director of OEM Sales and Marketing for the Imaging Division from June 1995 to January 1997. At Logitech, Inc., Mr. Manuel was initially responsible for worldwide account

management for numerous OEM customers, and later worldwide sales and sales strategy development and implementation. Mr. Manuel received an Associate of Science from Control Data Institute.

Mr. Frank V. Reo has been PC-Tel's Vice President of Business Development since February 1998. From February 1993 to February 1998, Mr. Reo served initially as Manager and later as Director of Business Development for the modem group at Cirrus Logic, a semiconductor company. In this position, he was responsible for product marketing, business development and applications engineering. Mr. Reo is a graduate in electronic engineering from Philco Technical Institute, Philadelphia.

Mr. William Wen-Liang Hsu co-founded PC-Tel and has served as the Vice President of Engineering and a director since its inception in March 1994. From August 1988 to March 1994, Mr. Hsu served in various positions with Sierra Semiconductor, a semiconductor company, including Engineering Director. At Sierra Semiconductor, Mr. Hsu managed a development group, and was responsible for digital signal processing firmware development for modem products with data, fax and voice features. Mr. Hsu received a Bachelor of Science in Communication Engineering from National Chiao-Tung University, Taiwan, and a Master of Science in Computer Engineering from Oregon State University.

Mr. Han Yeh co-founded PC-Tel and has served as the Vice President of Technology and a director since its inception in March 1994. Mr. Yeh was a staff engineer at Sierra Semiconductor, a semiconductor company, from September 1993 to March 1994. Mr. Yeh holds a Bachelor of Science in Control Engineering from National Chiao-Tung University, Taiwan, and a Master of Science in Electrical Engineering from New York State University at Stony Brook.

Mr. Derek S. Obata has been Vice President of Sales for PC-Tel since April 1998. From 1997 until joining PC-Tel, Mr. Obata was an independent consultant providing strategic planning, business development, marketing and sales support to emerging high technology companies. Mr. Obata served from 1996 to 1998 as Vice President, Worldwide Sales for Network Peripherals Incorporated, a networking company, and from 1992 to 1995 as Vice President, Worldwide Sales at Ministor Peripherals Corporation, a data storage company. Prior to this period, Mr. Obata served in a number of sales and sales management positions with Conner Peripherals and Seagate Technologies, which are data storage companies. Mr. Obata holds a Bachelor of Science in Engineering Sciences from the University of California, Berkeley.

Mr. Richard C. Alberding has been a director of PC-Tel since August 1999. Mr. Alberding retired from the Hewlett-Packard Company, a computer, peripherals and measurement products company, in June 1991, serving at that time as an Executive Vice President with responsibility for worldwide company sales, support and administration activities for measurement and computation products, as well as all corporate level marketing activities. Mr. Alberding is a director of Digital Link Corporation, Digital Microwave Corporation (which included a nine month period as interim Chairman/CEO), JLK Direct Distribution Inc., Paging Network, Inc., Sybase Inc. and Walker Interactive Systems. Mr. Alberding holds a B.A. degree in Business Administration/Marketing from Augusta College in Rock Island, Illinois, and an Associate of Science degree in Electrical Engineering from DeVry Technical Institute in Chicago.

Dr. Martin H. Singer has been a director of PC-Tel since August 1999. Since December 1998, Dr. Singer has been President and CEO of SAFCO Technologies, Inc., a wireless communications company. From 1994 to 1997, Mr. Singer served as Vice-President and General Manager of the Wireless Access Business Development Division for Motorola, Inc., a communications equipment company. Prior to this period, Dr. Singer held senior management and technical positions in Motorola, Inc., Tellabs, Inc., AT&T and Bell Labs. Dr. Singer holds a Bachelor of Arts in Psychology from the University of Michigan, and a Master of Arts and a Ph.D. in Experimental Psychology from Vanderbilt University.

Mr. Wen C. Ko has been a director for PC-Tel since May 1999. Since 1990, Mr. Ko has served as Chairman of seven WK Investment Funds, which are high-tech venture capital investment companies, and during 1992 to 1995 as Chairman of Taipei Venture Capital Association. Prior to this, Mr. Ko served in a

number of positions including Chairman & President and Computer Country Manager at Hewlett Packard Taiwan Ltd., a computation and communication system manufacturer and Research & Development Manager at International Business Machines, an information system technology company. Mr. Ko holds a Bachelor of Science in Electrical Engineering from National Cheng Kung University, Taiwan, and a Master of Science in System Science from Michigan State University.

Mr. Giacomo Marini has been a director of PC-Tel since October 1996. Since March 1995 Mr. Marini has served as President of MK Group LLC, a private investment and management consulting business that invests in and advises high technology companies, and from February 1998 to February 1999 as Interim Chief Executive Officer at FutureTel, Inc., a digital video capture company. From August 1993 to February 1995, Mr. Marini served as President and Chief Executive Officer of Common Ground Software, Inc. (formerly No Hands Software, Inc.), an electronic publishing software company. He is currently on the board of various private companies. He holds a Computer Science Laureate Degree from the University of Pisa, Italy.

Dr. Mike Min-Chu Chen has been a director of PC-Tel since February 1994 and is the cousin of our Chief Executive Officer and Chairman of the Board, Peter Chen. From May 1985 to August 1998, Dr. Chen served as the Executive Vice President, Chief Executive Officer and Director of C & C International Services, Inc., an engineering and procurement service company. From March 1987 to August 1998, Dr. Chen served as Executive Vice President, Chief Executive Officer and Director of Act Engineering, Inc., an engineering design and trading company. From December 1996 to February 1997, Dr. Chen served as director of ERT Holding, Inc., a company engaged in the environmental rubber recycling manufacturing business, and served as President of International Operations from December 1996 to February 1997 and then as Chairman from February 1997 to October 1997. He is currently on the board of various private companies. Dr. Chen holds a Bachelor of Science in Naval Architecture from National Taiwan Ocean University, a Master in Science in Mechanical Engineering and Naval Architecture from National Taiwan University, Taiwan, and a Doctorate in Ocean Engineering from Oregon State University.

Board Composition

Our board of directors currently consists of eight members. Upon completion of this offering, our bylaws will provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of directors will be elected each year. Class I directors' terms will expire at the annual meeting of stockholders to be held in 2000, Class II directors' terms will expire at the annual meeting of stockholders to be held in 2001 and Class III directors' terms will expire at the annual meeting of stockholders to be held in 2002. The Class I directors will be Peter Chen and Han Yeh, the Class II directors will be Wen C. Ko, Richard C. Alberding and William Wen-Liang Hsu, and the Class III directors will be Mike Min-Chu Chen, Giacomo Marini and Martin H. Singer. At each annual meeting of stockholders held after the initial classification, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. In addition, our bylaws provide that the authorized number of directors may be changed by an amendment to the bylaws, duly adopted by the board of directors or by the stockholders or by a duly adopted amendment to the certificate of incorporation. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors. This classification of the board of directors may delay or prevent a change in control of our company or in our management.

Executive officers are appointed by the board of directors in accordance with our bylaws, subject to the rights, if any, of an officer under any contract of employment.

Board Committees

We established an audit committee and a compensation committee in August 1999. The audit committee consists of Giacomo Marini and Richard C. Alberding. The audit committee reviews our internal accounting

procedures and consults with and reviews the services provided by our independent accountants. The compensation committee consists of Richard C. Alberding and Martin H. Singer. The compensation committee reviews and recommends to the board of directors the compensation and benefits of all our officers and directors, including stock compensation and loans, and establishes and reviews general policies relating to the compensation and benefits of our employees.

Compensation Committee Interlocks and Insider Participation

Prior to establishing the compensation committee, the board of directors as a whole performed the functions delegated to the compensation committee. No member of the board of directors or the compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

We do not pay our directors cash compensation for their service as members of the board of directors, although they are reimbursed for expenses in connection with attendance at board and committee meetings. Under our 1998 director option plan, non employee directors automatically receive stock option grants subject to the terms and conditions.

Limitations On Directors' Liability And Indemnification

Our certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- . any breach of their duty of loyalty to the corporation or its stockholders;
- . acts of omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- . unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- . any transaction from which the director derived an improper personal benefit.

The limitations of liability do not apply to liabilities arising under the federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in their capacity as an officer, director, employee or other agent, regardless of whether the bylaws would permit indemnification.

We have entered into agreements to indemnify our directors, executive officers and controller, in addition to the indemnification provided for in our bylaws. These agreements, among other things, provide for indemnification of our directors, executive officers and controller for judgment, fines, settlement amounts and expenses, including attorneys' fees incurred by the director, executive officer or controller in any action or proceeding, including any action by or in the right of PC-Tel, arising out of the person's services as a director, executive officer or controller of us, any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The limited liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of us pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Executive Compensation

Summary Compensation Table

The following table sets forth the compensation earned, awarded or paid for services rendered to us in all capacities for the fiscal year ended December 31, 1998, by our Chief Executive Officer and our four next most highly compensated executive officers who earned more than \$100,000 in salary and bonus during the fiscal year ended December 31, 1998 whom we refer to in this prospectus collectively as the named executive officers:

| | Annual Compensation | | | Long-Term Compensation Awards | |
|--|---------------------|------------|------------------------------------|-----------------------------------|-----------------------------|
| | Salary (\$) | Bonus (\$) | All Other Annual Compensation (\$) | Securities Underlying Options (#) | All Other Compensation (\$) |
| Peter Chen..... Chief Executive Officer and Chairman | \$173,750 | \$56,316 | -- | 125,000 | \$102(1) |
| Andrew D. Wahl..... Vice President, Finance and Chief Financial Officer | 136,500 | 31,833 | -- | 15,000 | 288(1) |
| William Wen-Liang Hsu... Vice President, Engineering | 136,876 | 31,244 | -- | 90,000 | 102(1) |
| Han Yeh..... Vice President, Technology | 136,876 | 31,244 | -- | 90,000 | 174(1) |
| Derek Obata..... Vice President, Sales | 105,192 | 68,641 | -- | 195,000 | 72(1) |

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(1) Consists of premiums paid by us for term life insurance.

OPTION GRANTS DURING LAST FISCAL YEAR

The following table shows information regarding stock options granted to the named executive officers during the fiscal year ended December 31, 1998. The potential realizable value is based on the assumption that our common stock appreciates at the annual rate shown, compounded annually, from the date of grant until the expiration of the ten-year term. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect projections or estimates of future stock price growth. Potential realizable values are computed by:

- . Multiplying the number of shares of common stock subject to a given option by the exercise price;
- . Assuming that the total stock value derived from that calculation compounds at the annual 5% or 10% rate shown in the table for the entire ten-year term of the option; and
- . Subtracting from that result the total option exercise price.

Actual gains, if any, on stock option exercises will be dependent on the future performance of the common stock. The percentage of total options is based on an aggregate of 1,393,900 options granted by us during the fiscal year ended December 31, 1998, to our employees, directors and consultants, including the named executive officers. Options were granted with an exercise price equal to the fair market value of our common stock, as determined in good faith by our board of directors.

| Name | Individual Grants | | | | Potential Realizable | |
|--------------------------|---|---|--------------------------|-----------------|---|-----------|
| | Number of Securities Underlying Options Granted (#) | % of Total Options Granted to Employees During Period | Exercise Price Per Share | Expiration Date | Value at Assumed Annual Rates of Stock Appreciation for Option Term | |
| | | | | | 5% (\$) | 10% (\$) |
| Peter Chen..... | 125,000(1) | 8.97% | \$7.45 | 1/30/08 | 585,658 | 1,484,173 |
| Andrew D. Wahl..... | 15,000(2) | 1.08% | \$7.45 | 2/27/08 | 70,279 | 178,101 |
| William Wen-Liang Hsu... | 90,000(3) | 6.46% | \$7.45 | 1/30/08 | 421,674 | 1,068,604 |
| Han Yeh..... | 90,000(4) | 6.46% | \$7.45 | 1/30/08 | 421,674 | 1,068,604 |
| Derek S. Obata..... | 130,000(5) | 9.33% | \$7.45 | 3/31/08 | 609,084 | 1,543,540 |
| | 65,000(6) | 4.66% | \$4.85 | 4/30/08 | 198,259 | 502,427 |

- (1) As of June 30, 1999, 44,271 shares of the option to purchase 125,000 shares of common stock have vested. The options for Mr. Chen vested as to 25% on January 2, 1999, and the balance vests in a series of monthly installments over the next three years of service.
- (2) As of June 30, 1999, 5,000 shares of the option to purchase 15,000 shares of common stock have vested. The options for Mr. Wahl vested as to 25% on February 1, 1999, and the balance vests in a series of monthly installments over the next three years of service.
- (3) As of June 30, 1999, 31,875 shares of the option to purchase 90,000 shares of common stock have vested. The options for Mr. Hsu vested as to 25% on January 2, 1999, and the balance vests in a series of monthly installments over the next three years of service.
- (4) As of June 30, 1999, 31,875 shares of the option to purchase 90,000 shares of common stock have vested. The options for Mr. Yeh vested as to 25% on January 2, 1999, and the balance vests in a series of monthly installments over the next three years of service.
- (5) As of June 30, 1999, 32,500 shares of the option to purchase 130,000 shares of common stock have vested. The options for Mr. Obata vested as to 25% on April 20, 1999, and the balance vests in a series of yearly installments over the next three years of service.
- (6) The fair market value of our common stock on the date of grant was \$7.45. As of June 30, 1999, 18,958 shares of the non-qualified option to purchase 65,000 shares of common stock have vested. The shares for Mr. Obata under this option vests five years from the anniversary date of the grant (April 20, 2003) or vesting may accelerate for a portion of the options based on a performance based vesting schedule.

AGGREGATE OPTION EXERCISES DURING LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information with respect to the named executive officers concerning option exercises for the year ended December 31, 1998 and exercisable and unexercisable options held as of December 31, 1998. The value of unexercised in-the-money options is based on a price of \$9.25 per share, the fair market value of our stock on December 31, 1998 as determined by our board of directors, minus the per share exercise price, multiplied by the number of shares underlying the option. As of June 30, 1999, no options to purchase our common stock granted since January 1, 1998 have been exercised by the named executive officers.

| | Number of Securities Underlying Options at December 31, 1998 | | Value of Unexercised In-the-Money Options at December 31, 1998 | |
|--------------------------|---|---------------|--|---------------|
| | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Peter Chen..... | 87,502 | 162,498 | \$767,830 | \$554,045 |
| Derek Obata..... | -- | 195,000 | -- | 520,000 |
| Andrew Wahl..... | 62,292 | 82,708 | 498,336 | 568,664 |
| Han Yeh..... | 45,000 | 135,000 | 394,875 | 556,875 |
| William Wen-Liang Hsu... | 45,000 | 135,000 | 394,875 | 556,875 |

Incentive Stock Plans

1995 Stock Plan

Our 1995 stock plan provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, and for the granting to employees and consultants of nonstatutory stock options. The maximum aggregate number of shares which may be optioned and sold under the 1995 stock plan is 3,200,000 shares of common stock. As of December 31, 1998, options to purchase an aggregate of 662,753 shares of common stock were outstanding under the 1995 stock plan, with a weighted average exercise price of \$0.234. The board of directors has determined that no further options will be granted under the 1995 stock plan after this offering. The 1995 stock plan provides that in the event of a merger of our company with or into another corporation, or the sale of substantially all of our assets, each outstanding option will be assumed or substituted for by the successor corporation. If the successor corporation refuses to assume or substitute for the options, the options will terminate as of the closing of the merger or sale of assets.

1997 Stock Plan

Our 1997 stock plan, as amended and restated August 3, 1999, provides for the granting to employees of incentive stock options within the meaning of Section 422 of the Code, and for the granting to employees and consultants of nonstatutory stock options and stock purchase rights, or SPRs. The 1997 stock plan was originally approved by the board of directors in November 1996 and was amended by our board of directors in August 1999, and was approved by our stockholders in August 1999. As of December 31, 1998, options to purchase an aggregate of 2,422,555 shares of common stock were outstanding under the 1997 stock plan with a weighted price of \$5.575. Unless terminated sooner, the 1997 stock plan will terminate automatically in 2007. A total of 5,500,000 shares of common stock are currently reserved for issuance pursuant to the 1997 stock plan, plus annual increases equal of the lesser of:

- . 700,000 shares,
- . 4% of the outstanding shares on such date, or
- . a lesser amount determined by the board.

The 1997 stock plan may be administered by the board of directors or a committee of the board. The board of directors or committee of the board has the power to determine the terms of the options or SPRs granted, including the exercise price, the number of shares subject to each option or SPR, the exercisability

thereof, and the form of consideration payable upon such exercise. In addition, the board of directors or committee of the board has the authority to amend, suspend or terminate the 1997 stock plan, provided that no such action may affect any share of common stock previously issued and sold or any option previously granted under the 1997 stock plan.

Options and SPRs granted under the 1997 stock plan are not generally transferable by the optionee, and each option and SPR is exercisable during the lifetime of the optionee only by such optionee. Options granted under the 1997 stock plan must generally be exercised within three months of the end of optionee's status as an employee or consultant of our company, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's ten year term. The exercise price of all incentive stock options granted under the 1997 stock plan must be at least equal to 100% of the fair market value of the common stock on the date of grant. The exercise price of nonstatutory stock options and SPRs granted under the 1997 stock plan is determined by the board of directors or a committee of the board, but with respect to nonstatutory stock options intended to qualify as "performance based compensation" within the meaning of Section 162(m) of the Code, the exercise price must at least be equal to 100% of the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of our outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of all other options granted under the 1997 stock plan may not exceed ten years.

The 1997 stock plan provides that in the event of a merger of our company with or into another corporation, a sale of substantially all of our assets, each option or right shall be assumed or an equivalent option or right substituted by the successor corporation. If the outstanding options or rights are not assumed or substituted as described in the preceding sentence, the board of directors or a committee of the board shall provide for the optionee to have the right to exercise the option or SPR as to all of the optioned stock, including shares as to which it would not otherwise be exercisable for a period of fifteen days from the date of such notice, and the option or SPR will terminate upon the expiration of such period.

1998 Employee Stock Purchase Plan

Our 1998 employee stock purchase plan was adopted by the board of directors in May 1998 but will not become effective until the closing date of this offering. A total of 800,000 shares of common stock has been reserved for issuance under the 1998 employee stock purchase plan, plus annual increases equal to the lesser of:

- . 350,000 shares,
- . 2% of the outstanding stock on such date, or
- . a lesser amount determined by the board of directors.

The 1998 employee stock purchase plan, which is intended to qualify under Section 423 of the Code, contains successive six-month offering periods. The offering periods generally start on the first trading day on or after February 15 and August 15 of each year, except for the first such offering period which commences on the first trading day on or after the effective date of this offering and ends on the last trading day on or before February 14, 2000.

Employees are eligible to participate if they are customarily employed by us or any participating subsidiary for at least 20 hours per week and more than five months in any calendar year. However any employee who:

- . immediately after grant owns stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock, or
- . whose rights to purchase stock under all employee stock purchase plans of our company accrues at a rate which exceeds \$25,000 worth of stock for each calendar year

may not be granted an option to purchase stock under the 1998 employee stock purchase plan.

The 1998 employee stock purchase plan permits participants to purchase common stock through payroll deductions of up to 15% of the participant's compensation. The maximum number of shares a participant may purchase during a single offering period is 2,000 shares.

Amounts deducted and accumulated by the participant are used to purchase shares of common stock at the end of each offering period. The price of stock purchased under the 1998 employee stock purchase plan is 85% of either the fair market value of the common stock at the beginning or end of the offering period whichever is lower. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with us.

Rights granted under the 1998 employee stock purchase plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the 1998 employee stock purchase plan. The 1998 employee stock purchase plan provides that, in the event of a merger of our company with or into another corporation or a sale of substantially all of our assets, each outstanding option may be assumed or substituted for by the successor corporation. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened and a new exercise date, before the date of the proposed sale or merger, will be set. The 1998 employee stock purchase plan will terminate in 2008. The board of directors has the authority to amend or terminate the 1998 employee stock purchase plan, except that no such action may adversely affect any outstanding rights to purchase stock under the 1998 employee stock purchase plan.

1998 Director Option Plan

Non employee directors are entitled to participate in the 1998 director option plan. The 1998 director option plan was adopted by the board of directors in May 1998, but it will not become effective until the closing date of this offering. The 1998 director option plan has a term of ten years, unless terminated sooner by the board of directors. A total of 200,000 shares of common stock have been reserved for issuance under the 1998 director option plan.

The 1998 director option plan provides for the automatic grant of options to purchase 15,000 shares of common stock to each new non employee director upon election to the board of directors. Options to purchase 15,000 shares will vest one-third on each anniversary of its date of grant until the option is fully vested, provided that the optionee continues to serve as a director on such dates. After the initial 15,000 share option is granted to the non employee director, he or she shall automatically be granted an option to purchase 7,500 shares on January 1 of each year, if on such date he or she shall have served on the board of directors for at least six months. The 7,500 share options shall vest completely on the anniversary of their date of grant, provided that the optionee continues to serve as a director on such dates. All of the options granted under the 1998 director option plan shall have a term of 10 years. The exercise price of all options shall be 100% of the fair market value per share of the common stock, generally determined with reference to the closing price of the common stock as reported on the Nasdaq National Market on the date of grant.

The 1998 director option plan provides that in the event of a merger of our company with or into another corporation, a sale of substantially all of our assets, each option or right shall be assumed or an equivalent option or right substituted by the successor corporation. If the outstanding options or rights are not assumed or substituted as described in the preceding sentence, the board of directors or a committee of the board shall provide for the optionee to have the right to exercise the option or SPR as to all of the optioned stock, including shares as to which it would not otherwise be exercisable for a period of thirty days from the date of such notice, and the option or SPR will terminate upon the expiration of such period. Options granted under the 1998 director option plan must be exercised within three months of the end of the optionee's tenure as a director of our company, or within twelve months after such director's termination by death or disability, but in no event later than the expiration of the option's ten year term. No option granted under the 1998 director option plan is transferable by the optionee other than by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by such optionee.

401(k) Plan

Our 401(k) plan covers all of our employees beginning the first of the month following the month of their employment. Pursuant to 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, which was \$10,000 in 1998. Contributions by employees to the 401(k) plan, and income earned on plan contributions, are not taxable to employees until withdrawn. Further, contributions by PC-Tel, if any, will be deductible by PC-Tel, when made. Participating employees vest in employer contributions over five years at a rate of 20% for each year of service. There have been no employer contributions to the 401(k) plan during the year.

Employment Agreements and Change of Control Arrangements

We require each of our employees to enter into confidentiality agreements prohibiting the employee from disclosing any of our confidential or proprietary information. In addition, the agreements generally provide that upon termination the employee will not solicit our employees. At the time of commencement of employment, our employees also generally sign offer letters specifying basic terms and conditions of employment. In general, our employees are not subject to written employment agreements.

We entered into an agreement on March 31, 1998 with Derek S. Obata which provides, among other things, that his employment is at-will, he will receive an annual salary of \$150,000 and that in the event of a change in control of our company, he will be entitled to one year severance pay.

We entered into an agreement on July 20, 1999 with William F. Roach. The agreement provides, among other things, that his employment will be at-will and his annual salary will be initially set at \$250,000 per year with an annual bonus of \$150,000 payable upon our achieving quarterly net income targets.

In addition, the agreement provides for Mr. Roach to be granted an option to purchase 400,000 shares of our common stock which vests according to the following schedule: 30% at the end of his first year of employment, 25% in years two and three and 20% in year four. Vesting after the twelfth month of employment is on a monthly basis. If this offering should take place within the first year of his employment, 50% of his first year's options will vest at the time of the offering, and the remaining 50% of his first year's options will vest upon reaching the completion of his twelfth month of employment. In addition, if his employment is terminated for any reason, other than for cause, he will be entitled to one year of severance. If the termination occurs within the first year of employment, he will be entitled to exercise his entire first year stock options.

CERTAIN TRANSACTIONS

Since January 1, 1995, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are to be a party in which the amount exceeds \$60,000, and in which any director, executive officer, holder of more than 5% of our common stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest other than compensation agreements and other agreements, which are described under "Management," and the transactions described below.

Transactions with Directors, Executive Officers and 5% Stockholders

Series A preferred stock. Between February 10, 1994 and March 14, 1995 we sold 4,413,333 shares of our common stock at a per share price between \$0.10 and \$0.30. On May 9, 1995 we effected a recapitalization of our outstanding stock converting each share of common stock into 1 share of Series A preferred stock. On June 29, 1995 we sold 222,222 shares of our Series A preferred stock at a price per share of \$0.30. The following table lists the number of shares of Series A preferred stock sold to our directors, executive officers, or 5% stockholders (and any members of the immediate family of such persons):

| Purchaser ----- | Shares of Series A preferred stock purchased ----- |
|-----------------------------|--|
| Peter & Sophia Chen..... | 666,666 |
| Han C. Yeh..... | 280,000 |
| I-Chung Yeh..... | 133,333 |
| Der-Chin Yeh..... | 66,666 |
| Yan-Chiou Yeh..... | 26,666 |
| Mike Min-Chu Chen..... | 666,666 |
| Wen-Liang Hsu..... | 200,000 |
| Rai-Yei Lee..... | 800,000 |
| Steel Su..... | 800,000 |
| Ming-Hsiung Michael Ho..... | 106,666 |

Series B preferred stock. Between October 18, 1995 and January 10, 1996 we sold 3,250,000 shares of our Series B preferred stock at a price per share of \$1.20. The following table lists the number of shares of Series B preferred stock sold to our directors, executive officers, and 5% stockholders (and any members of the immediate family of such persons):

| Purchaser ----- | Shares of Series B preferred stock purchased ----- |
|-----------------------------|--|
| WK Technology Fund..... | 555,800 |
| WK Technology Fund II..... | 402,500 |
| WK Technology Fund III..... | 958,366 |

Series C preferred stock. On February 4, 1998, we sold 625,200 shares of its Series C preferred stock at a price per share of \$8.00. The sale of Series C preferred stock included, among others, the sale of 125,000 shares of Series C preferred stock to WK Technology Funds, which is a holder of more than 5% of our common stock. In addition, Wen C. Ko, one of our directors, is Chairman of WK Technology Fund, WK Technology Fund II and WK Technology Fund III.

Employment Agreements With Executive Officers

We entered into an agreement on March 31, 1998 with Derek S. Obata which provides, among other things, that his employment is at-will and he will receive an annual salary of \$150,000.

We entered into an agreement on July 20, 1999 with William F. Roach. The agreement provides, among other things, that his employment will be at-will and his annual salary will be initially set at \$250,000 per year with an annual bonus of \$150,000 payable upon our achieving quarterly net income targets.

In addition, the agreement provides for Mr. Roach to be granted an option to purchase 400,000 shares of our common stock which vests according to the following schedule: 30% at the end of his first year of employment, 25% in years two and three and 20% in year four. Vesting after the twelfth month of employment is on a monthly basis. If this offering should take place within the first year of his employment, 50% of his first year's options will vest at the time of the offering, and the remaining 50% of his first year's options will vest upon reaching the completion of his twelfth month of employment. In addition, if his employment is terminated for any reason, other than for cause, he will be entitled to one year of severance. If the termination occurs within the first year of employment, he will be entitled to exercise his entire first year stock options.

Loan to Executive Officer

On August 3, 1999, our board authorized an unsecured loan to William F. Roach, our President and Chief Operating Officer, pursuant to a full-recourse promissory note, for a principal amount of \$54,000 with a per annum interest rate of 8%. The promissory note shall become immediately due and payable upon the earlier of (i) one year from the date the promissory note is executed or (ii) the termination of Mr. Roach's employment with us.

Other Transactions

Steel Su, a holder of more than 5% of our common stock and a member of our board of directors from March 1995 until November 1997, served as the President of BTC, a significant customer. For the years ended December 31, 1995, 1996, 1997 and 1998, the revenues generated from BTC were approximately \$99,000, \$1,660,000, \$2,153,000 and \$4,953,000, respectively.

Indemnification

We have entered into indemnification agreements with each of our directors, officers and controller. These indemnification agreements will require us to indemnify our officers to the fullest extent permitted by Delaware law.

All future transactions, including any loans from us to our officers, directors, principal stockholders or affiliates, will be approved by a majority of the board of directors or, if required by law, a majority of disinterested stockholders, and will be on terms no less favorable to us than could be obtained from unaffiliated third parties.

PRINCIPAL STOCKHOLDERS

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of June 30, 1999, and as adjusted to reflect the sale of common stock in this offering by:

- . each stockholder known by us to own beneficially more than 5% of our common stock,
- . each of the named executive officers,
- . each of our directors, and
- . all of our directors and executive officers as a group.

The table below assumes no exercise of the underwriters' over-allotment option. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after June 30, 1999 are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person. Unless otherwise indicated in the footnotes below (i) the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable and (ii) except as set forth in the footnotes to the table, the address of each of the individuals listed in the table is PC-Tel, Inc., 70 Rio Robles, San Jose, California 95134. As of June 30, 1999, there were 11,204,495 shares of common stock outstanding, as adjusted to reflect the conversion of all outstanding shares of preferred stock and warrants upon closing of this offering.

| Name of Beneficial Owner | Shares Beneficially Owned | | |
|--|------------------------------|---------------------------------|------------------------------|
| | Number | Percent prior to offering | Percent after offering |
| ----- | | | |
| 5% Stockholders | | | |
| Entities affiliated with the WK Technology | | | |
| Funds(1)..... | 1,932,812 | 17.2 | 12.2 |
| Steel Su(2)..... | 599,479 | 5.1% | 3.8% |
| Directors and Executive Officers | | | |
| Peter Chen(3)..... | 726,980 | 6.4 | 4.3 |
| Andrew D. Wahl(4)..... | 89,583 | * | * |
| Steve Manuel(5)..... | 55,417 | * | * |
| William Wen-Liang Hsu(6)..... | 548,958 | 4.9 | 3.5 |
| Han Yeh(7)..... | 688,958 | 6.1 | 4.3 |
| Derek S. Obata(8)..... | 54,176 | * | * |
| Frank Reo(9)..... | 32,500 | * | * |
| Mike Min-Chu Chen(10)..... | 232,812 | 2.1 | 1.5 |
| Giacomo Marini(11)..... | 26,146 | * | * |
| Richard C. Alberding..... | 0 | * | * |
| William F. Roach..... | 0 | * | * |
| Martin H. Singer..... | 0 | * | * |
| Wen C. Ko(1)..... | 1,932,812 | 17.2 | 12.2 |
| All directors and executive officers as a group (13 persons)(12)..... | 4,388,333 | 37.2 | 26.7 |

*Less than 1% of the outstanding shares of common stock.

(1) Includes 555,800 shares held by WK Technology Fund, 402,500 shares held by WK Technology Fund II, and 958,366 shares held by WK Technology Fund III and options to purchase 16,146 shares of our common stock held by WK Associates which are exercisable within 60 days of June 30, 1999. Wen C. Ko is one of our directors and is Chairman of the WK Technology Funds.

principal addresses is 10th Floor, 115, Sec. 3, Ming Sheng East Road, Taipei, Taiwan 23136. Mr. Ko disclaims beneficial ownership of the shares held by WC Technology Fund, WC Technology Fund II, and WK Technology Fund III, except to the extent of his pecuniary interest therein.

- (2) Includes 583,333 shares held by Mr. Su individually and options to purchase 16,146 shares exercisable within 60 days of June 30, 1999.
- (3) Includes 240,666 shares held by Mr. Chen with his wife as community property, 333,333 owned by himself individually, and 8,000, held by each of his minor children living at home, Robert and Michael Chen. Additionally includes options held by Mr. Chen to purchase 136,981 shares of our common stock exercisable within 60 days of June 30, 1999. Mr. Chen disclaims beneficial ownership of the shares held by his children, except to the extent of his pecuniary interest therein.
- (4) Includes options to purchase 89,583 share of our common stock exercisable within 60 days June 30, 1999.
- (5) Includes options to purchase 55,417 shares of our common stock exercisable within 60 days of June 30, 1999.
- (6) Includes 285,300 shares held by the William Wen-Liang Hsu and Rai-Yun Lee Family Trust, a revocable trust, over which shares Mr. Hsu has joint dispositive power, 123,700 shares held by himself personally, 20,830 held by each of his children living at home, Frederick and Joanne Hsu, 2,673 shares held by Hui-Ju Wang, Mr. Hsu's mother, and options to purchase 95,625 shares of our common stock exercisable within 60 days of June 30, 1999. Mr. Hsu disclaims the beneficial ownership of the shares held by his children and mother, except to the extent of his pecuniary interest therein.
- (7) Includes 577,333 shares owned by Mr. Yeh individually. Additionally includes 16,000 shares held by Emily C. Yeh, a minor daughter who lives in Mr. Yeh's home, and options to purchase 95,625 share of our common stock exercisable within 60 days of June 30, 1999. Mr. Yeh disclaims beneficial ownership of the shares held by Emily G. Yeh, except to the extent of his pecuniary interest therein.
- (8) Includes options to purchase 54,167 shares of our common stock exercisable within 60 days of June 30, 1999.
- (9) Includes options to purchase 32,500 shares of our common stock exercisable within 60 days of June 30, 1999.
- (10) Includes 193,966 shares owned by Mr. Chen individually. Additionally includes 11,350 shares held by each of his children living at home. Willis and Thomas L. Chen, a minor son living at Mr. Chen's home, and options to purchase 16,146 shares exercisable within 60 days of June 30, 1999. Mr. Chen disclaims beneficial ownership of the shares held by his children, except to the extent of his pecuniary interest therein.
- (11) Includes 12,800 shares held by Mr. Marini individually and options to purchase 13,346 shares exercisable within 60 days of June 30, 1999.
- (12) Includes shares held by each director and executive officer and family members in each of their households. Additionally includes options to purchase our common stock, held by each director and executive officer, exercisable within 60 days of June 30, 1999.

DESCRIPTION OF CAPITAL STOCK

General

Upon completion of the offering we will be authorized to issue 50,000,000 shares of common stock, \$0.001 par value, and 5,000,000 shares of undesignated preferred stock, \$0.001 par value. The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Common Stock

As of June 30, 1999, there were 11,002,078 shares of common stock outstanding which were held of record by 163 stockholders, as adjusted to reflect the conversion of all outstanding shares of preferred stock upon closing of this offering.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for that purpose. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of PC-Tel, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

Preferred Stock

Immediately prior to this offering, our certificate of incorporation provided for three series of preferred stock, Series A preferred stock of which 4,635,548 shares were issued and outstanding, Series B preferred stock, of which 3,250,000 shares were issued and outstanding, and Series C preferred stock, of which 625,200 shares were issued and outstanding. Upon the closing of this offering, each outstanding share of Series A preferred stock, Series B preferred stock, and Series C preferred stock will automatically convert into one share of common stock.

Upon the closing of this offering, the board of directors will be authorized, subject to any limitations prescribed by law, without stockholder approval, from time to time to issue up to an aggregate of 5,000,000 shares of preferred stock, \$0.001 par value per share, in one or more series, each of the series to have such rights and preferences, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the board of directors. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for others to acquire, or of discouraging others from attempting to acquire, a majority of the outstanding voting stock of PC-Tel. We have no present plans to issue any shares of preferred stock.

Warrants

At June 30, 1999, there were warrants outstanding to purchase a total of 200,000 shares of Series C preferred stock and 2,417 shares of common stock. Upon the closing of this offering, the warrants to purchase 200,000 shares of Series C preferred stock will become exercisable for an aggregate of 200,000 shares of common stock and will expire on December 31, 2008, unless earlier exercised. The warrants to purchase 2,417 shares of common stock will expire on February 4, 2001, unless earlier exercised. All warrants may be exercised on a "net" basis whereby, in lieu of paying the exercise price in cash, the holder may instruct us to retain a number of shares that has a fair market value at the time of exercise equal to the aggregate exercise price.

Registration Rights

The holders of 3,875,200 shares of common stock, and the holders of warrants to purchase 200,000 shares of common stock or their permitted transferees, are entitled to rights with respect to registration of the shares under the Securities Act at any time after 180 days following the closing of this offering. These rights are provided under the terms of an agreement between us and the holders of registrable securities. Subject to limitations in the agreement, the holders of at least 30% of the registrable securities then outstanding may require, on two occasions beginning after the date of this prospectus, that we use our best efforts to register the registrable securities for public resale. If we register any of our securities either for our own account or for the account of other security holders, the holders of registrable securities are entitled to include their shares of common stock in the registration, subject to the ability of the underwriters to limit the number of shares included in the offering. The holders of registrable securities may also require us to register all or a portion of their registrable securities on Form S-3 when use of such form becomes available to us, provided, among other limitations, that the proposed aggregate selling price (net of any underwriters' discounts and expenses of sale) is at least \$1.0 million. All registration expenses must be borne by us and all selling expenses relating to registrable securities must be borne by the holders of the securities being registered.

Delaware Anti-Takeover Law and Charter and Bylaw Provisions

Provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise and the removal of incumbent officers and directors. These provisions, summarized below, are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposed to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status, did own) 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Upon the closing of this offering, our certificate of incorporation and bylaws will require that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by a consent in writing. In addition, upon the close of this offering, special meetings of our stockholders may be called only by the board of directors or some of our officers. Our certificate of incorporation and bylaws also provide that, effective upon the closing of this offering, our board of directors will be divided into three classes, with each class serving staggered three-year terms. These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of PC-Tel.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is Norwest Bank Minnesota, N.A. Its address is 161 North Concord Exchange, St. Paul, Minnesota, 55075 and its telephone number at this location is (615) 450-4189.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock, and a significant public market for the common stock may not develop or be sustained after this offering. Future sales of substantial amounts of common stock (including shares issued upon exercise of outstanding options and warrants) in the public market following this offering could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through sale of our equity securities. As described below, no shares currently outstanding will be available for sale immediately after this offering because of contractual restrictions on resale. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering we will have outstanding 15,602,078 shares of common stock (based upon shares outstanding as of June 30, 1999), assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants that do not expire prior to completion of this offering. Of these shares, the 4,600,000 shares sold in this offering will be freely tradable without restriction under the Securities Act except for any shares purchased by "affiliates" of PC-Tel as that term is defined in Rule 144 under the Securities Act.

The remaining 11,204,495 shares of common stock, including common stock equivalents of 202,417 shares, held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. All of our stockholders and all of our directors and officers have entered into lock-up agreements with the underwriters that provide that we and those holders of stock and options may not dispose of or hedge any common stock or securities convertible into or exchangeable for shares of common stock. These restrictions will be in effect for a period of 180 days after the date of this prospectus. At any time and without notice, Banc of America Securities LLC may, in its sole discretion, release all or some of the securities from these lock-up agreements. In addition, holders of stock options could exercise such options and sell some of the shares issued upon exercise as described below:

| Relevant Dates | Approximate Shares Eligible for Future Sale | Comment |
|---|---|---|
| On effective date(1)..... | | Shares sold in this offering and eligible for sale under Rule 144(k) |
| 90 days after effective date(2)..... | | Additional shares eligible for sale under Rules 144 and 701 |
| 180 days after effective date(2)..... | | All shares subject to lock-up released; additional shares eligible for sale under Rules 144 and 701 |
| More than 181 days after effective date(2)..... | | Additional shares becoming eligible for sale under Rule 144 more than 180 days after the effective date |

(1) Assumes no exercise of the underwriters' over-allotment option.

(2) Assumes an effective date of September 30, 1999.

In addition, as of June 30, 1999, there were outstanding options and warrants to purchase 4,018,127 shares of common stock. All such options and warrants are subject to lock-up agreements.

Rule 144

In general, under Rule 144, an affiliate of PC-Tel, or person (or persons whose shares are aggregated) who has beneficially owned restricted shares for at least one year, will be entitled to sell in any three-month period a number of shares that does not exceed the greater of

- . 1% of the then outstanding shares of common stock (approximately 15,804 shares immediately after this offering) or

. the average weekly trading volume during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about PC-Tel.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our "affiliates" at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an "affiliate," is entitled to sell such shares without complying with the manner of sale, notice filing, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

Rule 701

Rule 701, as currently in effect, permits resale of shares in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Any employee, officer or director of or consultant to PC-Tel who purchased shares pursuant to a written compensatory plan or contract may be entitled to rely on the resale provision of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this Prospectus before selling such shares. However, all Rule 701 shares are subject to lock-up agreements and will only become eligible for sale at the earlier of the expiration of the 180-day lock-up agreements or no sooner than 90 days after the offering upon obtaining the prior written consent of Banc of America Securities LLC.

We are unable to estimate the number of shares that will be sold under Rule 144, as this will depend on the market price for the common stock, the personal circumstances of the sellers and other factors.

180 days following the date of this prospectus, we intend to file a registration statement on Form S-8 under the Securities Act covering, among other things, shares of common stock subject to outstanding options under the 1995 stock plan, the 1997 stock plan, the 1998 director option plan and the 1998 employee stock purchase plan. Based on the number of shares subject to outstanding options as of September 30, 1999 and currently reserved for issuance under the incentive plans, such registration statement would cover approximately 9,700,000 shares. Such registration statement will automatically become effective upon filing. Accordingly, shares registered under such registration statement will, subject to Rule 144 volume limitations applicable to affiliates of PC-Tel, be available for sale in the open market immediately after the 180-day lock-up agreements expire.

Registration Rights

Also beginning six months after the date of this offering, holders of 3,875,200 shares of common stock, as converted, and the holders of warrants to purchase 200,000 shares of common stock, as converted, or their permitted transferees will be entitled to certain rights with respect to registration of such shares for sale in the public market. See "Description of Capital Stock--Registration Rights." Registration of such shares under the Securities Act would result in such shares becoming freely tradable without restriction under the Securities Act (except for shares purchase by affiliates) immediately upon the effectiveness of such registration.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. Banc of America Securities LLC, Warburg Dillon Read LLC and Needham & Company, Inc., are the representatives of the underwriters. We have entered into an underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each of the underwriters has agreed to purchase, the number of shares of common stock listed next to its name in the following table:

| Underwriter ----- | Number of Shares ----- |
|-------------------------------------|------------------------------|
| Banc of America Securities LLC..... | |
| Warburg Dillon Read LLC..... | |
| Needham & Company, Inc..... | |
| | ----- |
| Total..... | 4,600,000 ===== |

The underwriters initially will offer shares to the public at the price specified on the cover page of this prospectus. The underwriters may allow to some dealers a concession of not more than \$ per share. The underwriters also may allow, and any other dealers may reallocate, a concession of not more than \$ per share to some other dealers. If all the shares are not sold at the initial public offering price, the underwriters may change the offering price and the other selling terms. The common stock is offered subject to a number of conditions, including:

- . receipt and acceptance of our common stock by the underwriters and
- . the right to reject orders in whole or in part.

We have granted an option to the underwriters to buy up to 690,000 additional shares of common stock. These additional shares would cover sales of shares by the underwriters which exceed the number of shares specified in the table above. The underwriters have 30 days to exercise this option. If the underwriters exercise this option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

We, all our stockholders and all of our officers and directors have entered into lock-up agreements with the underwriters. Under those agreements, we and those holders of stock and options may not dispose of or hedge any common stock or securities convertible into or exchangeable for shares of common stock. These restrictions will be in effect for a period of 180 days after the date of this prospectus. At any time and without notice, Banc of America Securities LLC may, in its sole discretion, release all or some of the securities from these lock-up agreements.

We will indemnify the underwriters against some liabilities, including some liabilities under the Securities Act. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

The shares of common stock have been approved for listing on the Nasdaq National Market under the symbol "PCTI."

In connection with this offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include:

- . short sales,
- . stabilizing transactions, and
- . purchase to cover positions created by short sales.

Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress.

The underwriters also may impose a penalty bid. This means that if the representatives purchase shares in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

The underwriters may engage in activities that stabilize, maintain or otherwise affect the price of the common stock, including:

- . over-allotment,
- . stabilization,
- . syndicate covering transactions, and
- . imposition of penalty bids.

As a result of these activities, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq National Market, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by this prospectus.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be negotiated between us and the underwriters. Among the factors to be considered in such negotiations are:

- . our history and prospects, and the history and prospectus of the industry in which we compete,
- . our past and present financial performance,
- . an assessment of our management,
- . the present state of our development,
- . our prospects for future earnings,
- . the prevailing market conditions of the applicable U.S. securities market at the time of this offer,
- . market valuations of publicly traded companies that we and the underwriters believe to be comparable to us, and
- . other factors deemed relevant by us and the underwriters.

The underwriters have reserved up to 200,000 shares of the common stock offered hereby for sale to certain of our employees, directors, and friends at the initial public offering price set forth on the cover page of this prospectus. Such persons must commit to purchase no later than the close of business on the day following the date of this prospectus. The number of shares available for sale to the general public will be reduced to the extent such persons purchase these reserved shares.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Certain legal matters will be passed upon for the Underwriters by Brobeck Phleger & Harrison, LLP, San Francisco, California. Certain legal matters related to intellectual property will be passed on for PC-Tel by Knobbe, Martens, Olson & Bear, LLP, Newport Beach, California.

EXPERTS

The consolidated financial statements and schedule of PC-Tel, Inc. included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The financial statements of the Communications Systems Division, a division of General DataComm, Inc. included in this prospectus and elsewhere in the registration statement have been audited by PricewaterhouseCoopers LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein, in reliance upon the authority of said firm as experts in giving said report.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We filed with the Securities and Exchange Commission, Washington, D.C., a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock sold in this offering. This prospectus does not contain all the information set forth in the registration statement and the exhibits and schedules thereto. For further information with respect to PC-Tel and our common stock, we refer you to the registration statement and to the exhibits and schedules that were filed with the registration statement. Statements contained in this prospectus as to the contents of any contract or other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement may be inspected by anyone without charge at the Public Reference Section of the Securities and Exchange Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of prescribed fees. The Securities and Exchange Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the site is <http://www.sec.gov>.

Upon completion of this offering, PC-Tel will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and, in accordance with the requirements of the Securities Exchange Act of 1934, will file periodic reports, proxy statements and other information with the Securities and Exchange Commission. These periodic reports, proxy statements and other information will be available for inspection and copying at the regional offices, public reference facilities and web site of the Securities and Exchange Commission referred to above.

PC-TEL, INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To PC-Tel, Inc.:

We have audited the accompanying consolidated balance sheets of PC-Tel, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PC-Tel, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

San Jose, California
March 4, 1999

PC-TEL, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | December 31, ----- | | June 30, 1999 Pro Forma Stockholders' Equity (Note 8) ----- |
|--|-----------------------|----------|--|
| | 1997 | 1998 | June 30, 1999 |
| | | | (unaudited) |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents..... | \$ 6,685 | \$12,988 | \$17,252 |
| Short-term investments..... | -- | -- | 6,282 |
| Accounts receivable, net of allowance for doubtful accounts of \$604, \$1,689 and \$3,382, respectively..... | 6,058 | 12,931 | 5,516 |
| Subscriptions receivable..... | 5,002 | -- | -- |
| Inventories..... | 989 | 2,073 | 3,590 |
| Prepaid expenses and other assets.... | 926 | 264 | 472 |
| Deferred tax asset..... | 2,680 | 4,205 | 4,658 |
| Total current assets..... | 22,340 | 32,461 | 37,770 |
| PROPERTY AND EQUIPMENT, net..... | 713 | 1,042 | 1,475 |
| GOODWILL AND OTHER INTANGIBLE ASSETS, net..... | -- | 10,812 | 9,730 |
| OTHER ASSETS..... | 95 | 1,681 | 1,508 |
| | \$23,148 | \$45,996 | \$50,483 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt.... | \$ -- | \$ 1,640 | \$ 1,847 |
| Accounts payable..... | 1,577 | 5,155 | 3,564 |
| Accrued royalties..... | 6,505 | 5,144 | 6,516 |
| Income taxes payable..... | -- | 1,207 | 2,044 |
| Accrued liabilities..... | 1,418 | 3,002 | 5,021 |
| Total current liabilities..... | 9,500 | 16,148 | 18,992 |
| LONG-TERM DEBT, net of current portion..... | 38 | 14,709 | 13,630 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | | |
| STOCKHOLDERS' EQUITY: | | | |
| Preferred stock, \$0.001 par value; aggregate liquidation preference of \$10,015 as of December 31, 1998 and June 30, 1999 Authorized--9,385,548 Outstanding--7,885,548, 8,510,748, 8,510,748 and 0 shares pro forma, respectively; subscribed--625,200, 0, 0 and 0 shares pro forma, respectively..... | 9 | 9 | 9 |
| Common stock, \$0.001 par value Authorized--50,000,000 Outstanding--2,208,990, 2,412,247, 2,491,330 and 11,002,078 shares pro forma, respectively..... | 2 | 2 | 2 |
| Additional paid-in capital..... | 9,667 | 10,915 | 12,881 |
| Deferred compensation..... | -- | (214) | (2,162) |
| Retained earnings..... | 3,932 | 4,427 | 7,131 |
| Total stockholders' equity..... | 13,610 | 15,139 | 17,861 |
| | \$23,148 | \$45,996 | \$50,483 |
| | ===== | ===== | ===== |

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

PC-TEL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|--|-------------------------|----------|----------|------------------------------|----------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | | | | (unaudited) | |
| REVENUES..... | \$16,573 | \$24,009 | \$33,004 | \$12,343 | \$33,046 |
| COST OF REVENUES..... | 9,182 | 12,924 | 13,878 | 5,948 | 16,997 |
| GROSS PROFIT..... | 7,391 | 11,085 | 19,126 | 6,395 | 16,049 |
| OPERATING EXPENSES: | | | | | |
| Research and development..... | 2,152 | 3,348 | 4,932 | 2,455 | 4,423 |
| Sales and marketing..... | 839 | 3,168 | 5,624 | 2,407 | 4,945 |
| General and administrative..... | 477 | 1,612 | 2,169 | 791 | 2,063 |
| Acquired in-process research and development (Note 4)..... | -- | -- | 6,130 | -- | -- |
| Amortization of deferred compensation..... | 41 | -- | 43 | 10 | 164 |
| Total operating expenses..... | 3,509 | 8,128 | 18,898 | 5,663 | 11,595 |
| INCOME FROM OPERATIONS..... | 3,882 | 2,957 | 228 | 732 | 4,454 |
| OTHER INCOME (EXPENSE), NET: | | | | | |
| Interest income..... | 127 | 299 | 504 | 254 | 303 |
| Interest expense..... | -- | -- | (25) | (11) | (895) |
| Total other income (expense), net..... | 127 | 299 | 479 | 243 | (592) |
| INCOME BEFORE PROVISION FOR INCOME TAXES..... | 4,009 | 3,256 | 707 | 975 | 3,862 |
| PROVISION FOR INCOME TAXES..... | 1,005 | 955 | 212 | 292 | 1,158 |
| NET INCOME..... | \$ 3,004 | \$ 2,301 | \$ 495 | \$ 683 | \$ 2,704 |
| Basic earnings per share..... | \$ 4.79 | \$ 1.13 | \$ 0.21 | \$ 0.29 | \$ 1.10 |
| Diluted earnings per share..... | \$ 0.29 | \$ 0.20 | \$ 0.04 | \$ 0.06 | \$ 0.21 |
| Shares used in computing basic earnings per share..... | 627 | 2,032 | 2,355 | 2,320 | 2,461 |
| Shares used in computing diluted earnings per share..... | 10,280 | 11,645 | 12,325 | 12,400 | 12,638 |

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

PC-TEL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share amounts)

| | Preferred Stock | | Common Stock | | Additional | Deferred | (Accumulated | |
|---|-----------------|--------|--------------|--------|------------|--------------|--------------|----------|
| | Shares | Amount | Shares | Amount | Paid-In | Compensation | Deficit)/ | Total |
| | | | | | Capital | | Retained | |
| | | | | | | | Earnings | |
| | | | | | | | | |
| BALANCE, DECEMBER 31, 1995..... | 7,562,208 | \$ 8 | -- | \$-- | \$ 4,593 | \$ -- | \$(1,373) | \$ 3,228 |
| Issuance of Series B convertible preferred stock for cash at \$1.20 per share..... | 323,340 | -- | -- | -- | 388 | -- | -- | 388 |
| Issuance of common stock on exercise of stock options..... | -- | -- | 1,454,999 | 1 | 27 | -- | -- | 28 |
| Stock compensation expense for stock option grants..... | -- | -- | -- | -- | 41 | -- | -- | 41 |
| Net income..... | -- | -- | -- | -- | -- | -- | 3,004 | 3,004 |
| BALANCE, DECEMBER 31, 1996..... | 7,885,548 | 8 | 1,454,999 | 1 | 5,049 | -- | 1,631 | 6,689 |
| Subscription for Series C convertible preferred stock for cash at \$8.00 per share, net of issuance costs of \$406..... | 625,200 | 1 | -- | -- | 4,595 | -- | -- | 4,596 |
| Issuance of common stock on exercise of stock options..... | -- | -- | 753,991 | 1 | 23 | -- | -- | 24 |
| Net income..... | -- | -- | -- | -- | -- | -- | 2,301 | 2,301 |
| BALANCE, DECEMBER 31, 1997..... | 8,510,748 | 9 | 2,208,990 | 2 | 9,667 | -- | 3,932 | 13,610 |
| Issuance costs for Series C convertible preferred stock..... | -- | -- | -- | -- | (44) | -- | -- | (44) |
| Deferred compensation expense for stock option grants..... | -- | -- | -- | -- | 257 | (257) | -- | -- |
| Stock compensation expense for stock option grants..... | -- | -- | -- | -- | -- | 43 | -- | 43 |
| Issuance of common stock on exercise of stock options..... | -- | -- | 203,257 | -- | 34 | -- | -- | 34 |
| Issuance of Series C convertible stock warrants in conjunction with notes payable..... | -- | -- | -- | -- | 1,350 | -- | -- | 1,350 |
| Costs incurred related to initial public offering..... | -- | -- | -- | -- | (349) | -- | -- | (349) |
| Net income..... | -- | -- | -- | -- | -- | -- | 495 | 495 |
| BALANCE, DECEMBER 31, 1998..... | 8,510,748 | 9 | 2,412,247 | 2 | 10,915 | (214) | 4,427 | 15,139 |
| Deferred compensation expense for stock option grants (unaudited)..... | -- | -- | -- | -- | 2,112 | (2,112) | -- | -- |
| Stock compensation expense for option grants (unaudited).... | -- | -- | -- | -- | -- | 164 | -- | 164 |
| Issuance of common stock on exercise of stock options (unaudited)..... | -- | -- | 79,083 | -- | 10 | -- | -- | 10 |
| Costs incurred related to initial public offering (unaudited)... | -- | -- | -- | -- | (156) | -- | -- | (156) |
| Net income (unaudited)..... | -- | -- | -- | -- | -- | -- | 2,704 | 2,704 |
| BALANCE, JUNE 30, 1999 (unaudited)..... | 8,510,748 | \$ 9 | 2,491,330 | \$ 2 | \$12,881 | \$(2,162) | \$ 7,131 | \$17,861 |
| | ===== | === | ===== | === | ===== | ===== | ===== | ===== |

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

PC-TEL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|---|-------------------------|----------|----------|---------------------------|----------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | (unaudited) | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income..... | \$ 3,004 | \$ 2,301 | \$ 495 | \$ 683 | \$ 2,704 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Acquired in-process research and development..... | -- | -- | 6,130 | -- | -- |
| Depreciation and amortization..... | 59 | 193 | 303 | 139 | 1,350 |
| Amortization of deferred debt costs..... | -- | -- | -- | -- | 152 |
| Increase in allowance for doubtful accounts..... | 70 | 534 | 1,085 | 484 | 1,693 |
| Increase in inventory reserves..... | 1,514 | 488 | 330 | 146 | 525 |
| Stock compensation expense for stock option grants..... | 41 | -- | 43 | 10 | 164 |
| Changes in assets and liabilities, net of acquisitions: | | | | | |
| (Increase) decrease in accounts receivable..... | (2,247) | (4,363) | (8,391) | (3,196) | 5,722 |
| (Increase) decrease in inventories..... | (1,850) | 869 | (1,352) | (135) | (2,042) |
| (Increase) decrease in prepaid expenses and other assets..... | (16) | (975) | 598 | 685 | (190) |
| Increase in deferred tax asset..... | (2,489) | (191) | (1,525) | (73) | (453) |
| Increase in accounts payable and accrued liabilities.... | 1,053 | 1,170 | 5,157 | 516 | 428 |
| Increase (decrease) in accrued royalties..... | 2,531 | 3,974 | (1,361) | 1,758 | 1,372 |
| Increase (decrease) in income taxes payable..... | 2,532 | (2,532) | 1,207 | 63 | 837 |
| Increase (decrease) in deferred revenue..... | 551 | (551) | -- | -- | -- |
| Net cash provided by operating activities..... | 4,753 | 917 | 2,719 | 1,080 | 12,262 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchase of property and equipment..... | (310) | (427) | (512) | (149) | (698) |
| Proceeds from sale of available-for-sale investments..... | -- | 1,003 | -- | -- | 3,254 |
| Purchase of available-for-sale investments..... | (948) | -- | -- | -- | (9,536) |
| Purchase of Communications Systems Division, net of cash acquired..... | -- | -- | (16,832) | -- | -- |
| Net cash provided by (used in) investing activities.... | (1,258) | 576 | (17,344) | (149) | (6,980) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Proceeds from notes payable... | -- | -- | 16,313 | -- | -- |
| Principal payments on notes payable..... | -- | -- | -- | -- | (859) |
| Proceeds from issuance of preferred stock..... | 388 | -- | 5,002 | 5,002 | -- |
| Costs incurred related to issuance of preferred stock.. | -- | (406) | (44) | -- | -- |
| Costs incurred related to proposed initial public offering..... | -- | -- | (349) | (262) | (156) |
| Proceeds from issuance of common stock..... | 28 | 24 | 34 | 30 | 10 |
| Principal payments on capital lease obligations..... | (2) | (11) | (28) | (14) | (13) |
| Net cash provided by (used in) financing activities.... | 414 | (393) | 20,928 | 4,756 | (1,018) |
| Net increase in cash and cash equivalents..... | 3,909 | 1,100 | 6,303 | 5,687 | 4,264 |
| CASH AND CASH EQUIVALENTS, beginning of period..... | 1,676 | 5,585 | 6,685 | 6,685 | 12,988 |

| | | | | | |
|---|----------|----------|-----------|-----------|-----------|
| CASH AND CASH EQUIVALENTS, end of period..... | \$ 5,585 | \$ 6,685 | \$ 12,988 | \$ 12,372 | \$ 17,252 |
| | ===== | ===== | ===== | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | | | |
| Cash paid for interest..... | \$ -- | \$ -- | \$ 25 | \$ 11 | \$ 895 |
| Cash paid for income taxes.... | \$ 961 | \$ 4,372 | \$ 462 | \$ 317 | \$ 775 |
| Property and equipment acquired under capital leases..... | \$ 7 | \$ 67 | \$ -- | \$ -- | \$ -- |
| Issuance of warrants for preferred and common stock... | \$ -- | \$ -- | \$ 1,400 | \$ 50 | \$ -- |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Information relating to the six months ended June 30, 1998 and June 30, 1999 is unaudited)

DECEMBER 31, 1998

1. ORGANIZATION AND OPERATIONS OF THE COMPANY:

PC-Tel, Inc. ("the Company") is a corporation that was originally incorporated in California in February 1994. In July 1998, the Company reincorporated in Delaware and this reincorporation has been reflected retroactively in the accompanying consolidated financial statements. The Company is a leading provider of software based connectivity solutions to individuals and businesses worldwide. The Company designs, develops, produces and markets advanced software-based high performance, low cost modems that are flexible and upgradeable, with functionality that can include data/fax transmission at various speeds, video conferencing and telephony features. The Company's host signal processing software architecture utilizes the host PC's central processing unit to perform digital signal processing and other operations typically handled by dedicated hardware found in conventional hardware-based modems. The Company's host signal processing technology allows the elimination of this dedicated hardware, lowering costs and enhancing capabilities.

The Company is subject to certain risks including, but not limited to, competition from larger, more established companies, reliance on a limited number of customers, dependence on new product introductions, short product life cycles, the Company's ability to develop and bring to market new products on a timely basis, volatility of the industry including technical obsolescence, dependence on key employees and the ability to attract and retain additional qualified personnel to manage the anticipated growth of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Use of Estimates

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

Consolidation and Foreign Currency Translation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany accounts and transactions. The functional currency of the Company's subsidiaries is the United States dollar, accordingly, all translation gains and losses resulting from transactions denominated in currencies other than United States dollars are included in net income. As of December 31, 1998, the Company has subsidiaries in the Cayman Islands and Japan.

Cash and Cash Equivalents

For the purposes of the consolidated balance sheets and the consolidated statements of cash flows, the Company considers all highly liquid debt instruments or money-market type funds with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

At June 30, 1999, short-term investments consist of U.S. Government investments with an original maturity of approximately four months and a certificate of deposit with an original maturity in excess of three months. These short-term investments are classified as available-for-sale and are recorded at their fair value. If

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

material, any unrealized gains or losses would be classified as Other Comprehensive Income in the accompanying statement of stockholders' equity. As of June 30, 1999, the cost and fair value of the short-term investments were not materially different.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash investments and trade receivables. The Company has cash investment policies that limit its investments to short-term, low-risk investments. With respect to trade receivables, the Company's customers are concentrated in the personal computer industry and modem board manufacturer industry segment and in certain geographic locations. The Company actively markets and sells products in Asia. The Company performs ongoing evaluations of its customers' financial conditions and generally requires no collateral. As of December 31, 1997, approximately 55% of gross accounts receivable was concentrated with three customers. As of December 31, 1998, approximately 54% of gross accounts receivable was concentrated with three customers. As of June 30, 1999, approximately 48% of gross accounts receivable was concentrated with three customers.

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs. Inventories at December 31, 1997 and 1998 and June 30, 1999 were composed of finished goods only. Inventories included certain finished goods that were in excess of the Company's expected requirements and the excess amounts were fully reserved as of December 31, 1997, 1998 and June 30, 1999. Due to competitive pressures and technological innovation, it is possible these estimates could change in the near term.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives (three to seven years) of the assets. Assets acquired under capital leases are recorded at the present value of the related lease obligations and are depreciated on a straight-line basis over the shorter of the estimated useful life or lease term. Included in property and equipment are assets acquired under capital lease obligations with an original cost of approximately \$74,000. Accumulated amortization on the leased assets was approximately \$6,000 and \$22,000 as of December 31, 1997 and 1998, respectively. Leasehold improvements are amortized over the corresponding lease term.

Property and equipment consists of the following (in thousands):

| | December 31, | | |
|---|--------------|---------|---------------|
| | 1997 | 1998 | June 30, 1999 |
| | ----- | ----- | ----- |
| | | | (unaudited) |
| Computer and office equipment..... | \$ 868 | \$1,296 | \$1,962 |
| Furniture and fixtures..... | 119 | 264 | 271 |
| Leasehold improvements..... | 6 | 55 | 72 |
| | ----- | ----- | ----- |
| Total property and equipment..... | 993 | 1,615 | 2,305 |
| Less: Accumulated depreciation and amortization..... | (280) | (573) | (830) |
| | ----- | ----- | ----- |
| Property and equipment, net..... | \$ 713 | \$1,042 | \$1,475 |
| | ===== | ===== | ===== |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Accounting for Impairment of Long-Lived Assets

The Company assesses the need to record impairment losses on long-lived assets used in operations when indicators of impairment are present. On an on-going basis, management reviews the value and period of amortization or depreciation of long-lived assets, including costs in excess of net assets of businesses acquired. During this review, the significant assumptions used in determining the original cost of long-lived assets are reevaluated. Although the assumptions may vary from transaction to transaction, they generally include revenue growth, operating results, cash flows and other indicators of value. Management then determines whether there has been a permanent impairment of the value of long-lived assets by comparing future estimated undiscounted cash flows to the asset's carrying value. If the estimated future undiscounted cash flows exceed the carrying value of the asset, a loss is recorded as the excess of the asset's carrying value over fair value. To date, the Company has not needed to record any impairment losses on long-lived assets.

Software Development Costs

The Company accounts for software development costs in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." The Company's products include a software component. The Company has expensed all software development costs to date, and substantially all development costs have been incurred prior to the Company's products attaining technological feasibility.

Revenue Recognition

Revenues consist primarily of sales of products to original equipment manufacturers ("OEMs") and distributors. Revenues from sales to OEMs are recognized upon shipment. The Company provides for estimated sales returns and allowances related to sales to OEMs at the time of shipment. Revenues from sales to distributors are made under agreements allowing price protection and rights of return on unsold products. In the fourth quarter of 1998, the Company began to record revenue relating to sales to distributors upon sell-through from the distributor to the end customer. Prior to this change, the Company recognized revenues upon shipment to distributors, net of reserves for estimated returns and price protection arrangements. This change did not have a material effect on the Company's financial statements.

The Company has also generated revenues from engineering contracts. Revenues from engineering contracts are recognized as contract milestones are achieved. Royalty revenue is recognized when confirmation of royalties due to the Company is received from licensees.

Stock-Based Compensation

The Company accounts for stock based compensation in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation." SFAS No. 123 permits the use of either a fair value based method or the method defined in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", ("APB No. 25"), to account for stock-based compensation arrangements. Companies that elect to employ the valuation method provided in APB No. 25 are required to disclose the pro forma net income (loss) that would have resulted from the use of the fair value based method. The Company has elected to continue to determine the value of stock-based compensation arrangements under the provisions of APB No. 25 and, accordingly, it has included the pro forma disclosures required under SFAS No. 123 in Note 8.

Earnings Per Share

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings Per Share". SFAS No. 128 requires companies to compute net income per share under two different methods, basic and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

diluted, and present per share data for all periods in which a statement of operations is presented. Basic earnings per share is computed by dividing net income per share by the weighted average number of shares of common stock outstanding.

Diluted earnings per share is computed using the weighted average number of common stock and common stock equivalents outstanding during the period. Common stock equivalents consist of preferred stock using the "if converted" method and stock options and warrants using the treasury stock method. Preferred stock, common stock options and warrants are excluded from the computation of diluted earnings per share if their effect is anti-dilutive.

Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 98, convertible preferred stock and common stock issued or granted for nominal consideration prior to the anticipated effective date of the proposed initial public offering must be included in the calculation of basic and diluted net income per common share as if they had been outstanding for all periods presented. To date, the Company has not had any issuances or grants for nominal consideration.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three years ended December 31, 1998 and for the six months ended June 30, 1998 and June 30, 1999, respectively (in thousands, except per share data):

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|--------------------------------------|-------------------------|----------|---------|------------------------------|----------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | (unaudited) | | | | |
| Net income..... | \$ 3,004 | \$ 2,301 | \$ 495 | \$ 683 | \$ 2,704 |
| | ===== | ===== | ===== | ===== | ===== |
| Basic earnings per share: | | | | | |
| Weighted average common shares | | | | | |
| outstanding..... | 627 | 2,032 | 2,355 | 2,320 | 2,461 |
| | ----- | ----- | ----- | ----- | ----- |
| Basic earnings per share..... | \$ 4.79 | \$ 1.13 | \$ 0.21 | \$ 0.29 | \$ 1.10 |
| | ===== | ===== | ===== | ===== | ===== |
| Diluted earnings per share: | | | | | |
| Weighted average common shares | | | | | |
| outstanding..... | 627 | 2,032 | 2,355 | 2,320 | 2,461 |
| common stock option grants and | | | | | |
| outstanding warrants..... | 1,848 | 1,727 | 1,518 | 1,687 | 1,666 |
| Weighted average preferred stock | | | | | |
| outstanding..... | 7,805 | 7,886 | 8,452 | 8,393 | 8,511 |
| | ----- | ----- | ----- | ----- | ----- |
| Total weighted average common shares | | | | | |
| and common stock equivalents..... | 10,280 | 11,645 | 12,325 | 12,400 | 12,638 |
| | ----- | ----- | ----- | ----- | ----- |
| Diluted earnings per share..... | \$ 0.29 | \$ 0.20 | \$ 0.04 | \$ 0.06 | \$ 0.21 |
| | ===== | ===== | ===== | ===== | ===== |

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130 "Reporting Comprehensive Income." Comprehensive income is to include amounts which have been previously excluded from net income and reflected instead in stockholders' equity. For all periods presented, comprehensive income is the same as reported net income.

The Cost of Computer Software Developed or Obtained for Internal Use

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

which the Company adopted in fiscal 1999. SOP No. 98-1 requires entities to capitalize certain costs related to internal-use software once certain criteria has been met. The adoption did not have a material impact on the Company's financial position or results of operations.

Costs of Start-Up Activities

In April 1998, the American Institute of Certified Public Accountants issued SOP No. 98-5 "Reporting on the Costs of Start-Up Activities," which the Company adopted in fiscal 1999. SOP No. 98-5 requires that all start-up costs related to new operations must be expensed as incurred. In addition, all start-up costs that were previously capitalized must be written off when SOP No. 98-5 is adopted. The adoption did not have a material impact on the Company's financial position or results of operations.

Proposed Initial Public Offering

The Board of Directors has approved a plan to file a registration statement with the Securities and Exchange Commission to register shares of its common stock in connection with a proposed initial public offering ("IPO"). Costs incurred by the Company related to the IPO have been recorded within the consolidated statements of stockholders' equity. If the Company is not able to complete the IPO, these capitalized costs would be expensed in the consolidated statements of operations.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires certain accounting and reporting standards for derivative financial instruments and hedging activities. The Company becomes subject to SFAS No. 133 for the first quarter beginning after January 1, 2001. Because the Company does not currently hold any derivative instruments and does not engage in hedging activities, the adoption of SFAS No. 133 is not expected to have a material impact on the financial position or results of operations of the Company.

3. RISKS AND UNCERTAINTIES:

For the year ended December 31, 1998, the Company's purchases of integrated circuits were primarily concentrated with a limited number of vendors. If these vendors were unable to provide integrated circuits in a timely manner and the Company was unable to find alternative vendors, the Company's business, operating results and financial condition could be adversely affected.

The majority of the Company's revenues are derived from a limited number of products utilizing host signal processing technology. The market for these products is characterized by frequent transitions in which products rapidly incorporate new features and performance standards. A failure to develop products with required feature sets or performance standards or a delay in bringing a new product to market could adversely affect the Company's operating results.

4. ACQUISITIONS:

Communications Systems Division

On December 22, 1998, the Company acquired substantially all of the assets and certain of the liabilities of Communications Systems Division ("CSD"), a division of General DataComm, Inc., for a total purchase

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

price of approximately \$17 million. The acquisition, which was accounted for as a purchase, was paid for in cash and financed primarily with notes payable. In conjunction with the acquisition, the Company and one of its wholly owned subsidiaries entered into Notes Payable arrangements for approximately \$16.3 million (Note 5). The consolidated statement of operations for the year ended December 31, 1998, includes the results of operations of CSD from the date of acquisition. The excess purchase price over the net tangible assets acquired was \$16.8 million of which \$6.1 million was allocated to in-process research and development and \$10.7 million was allocated to other intangible assets. Amounts allocated to other intangible assets (classified as Goodwill and Other Intangible Assets, net in the accompanying consolidated balance sheets) include patents and intellectual property of \$8.7 million, work force of \$1.3 million and goodwill of \$671,000, all of which are being amortized over their useful lives which was five years on a weighted average basis. The allocation of purchase price is a preliminary estimate by management and is subject to further adjustment.

Upon completion of the CSD acquisition, the Company immediately expensed \$6.1 million representing purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. The value assigned to purchased in-process technology, based on a percentage of completion discounted cash flow method, was determined by identifying research projects in areas for which technological feasibility has not been established. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects and discounting the net cash flows back to their present value. The discount rate includes a risk adjusted discount rate to take into account the uncertainty surrounding the successful development of the purchased in-process technology. The valuation includes cash inflows from in-process technology through 2002 with revenues commencing in 1999 and increasing significantly in 2000 before declining in 2002. A royalty payment of 3% was assumed from in-process technology to existing technology, based on management's estimate of a patent license rate. The High Density Remote Access System and industrial modem projects were approximately 56% complete at the time of the valuation and the expected timeframe for achieving these product releases was assumed to be in the second half of 1999. The DSL project was approximately 56% complete at the time of the valuation and the expected time frame for achieving this product release is assumed to be in early 2000. The percentage complete calculations for all projects were estimated based on research and development expenses incurred to date and management estimates of remaining development costs. Significant remaining development efforts must be completed in the next 6 to 18 months in order for CSD's projects to become implemented in a commercially viable timeframe. If these projects are not successfully developed, the Company's future revenue and profitability may be adversely affected. Additionally, the value of other intangible assets acquired may become impaired.

The unaudited pro forma financial information for the years ended December 31, 1997 and 1998 is presented below as if CSD had been acquired on January 1, 1997.

| | Year Ended December 31, | |
|-----------------------------------|----------------------------|----------|
| | 1997 | 1998 |
| Revenues..... | \$28,573 | \$35,632 |
| Net income..... | \$ 2,272 | \$ 2,978 |
| Diluted net income per share..... | \$ 0.20 | \$ 0.24 |

5. NOTES PAYABLE:

On December 22, 1998, the Company and one of its wholly owned subsidiaries, each entered into a note payable arrangement ("the Notes Payable") with a bank. The Notes Payable are for a total amount of \$16.3 million. The Notes Payable bear interest at the bank's prime interest rate plus 0.5% (8.25% at December 31, 1998) and are subject to certain financial and non-financial covenants. In addition, the bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

received a primary security interest in all assets, including intellectual property, of the Company. The Notes Payable are to be repaid in 59 equal monthly installments of approximately \$258,000 and a final payment of approximately \$5.9 million in January 2004. The Company will be required to pay a 3% penalty if the Notes Payable are paid prior to maturity. No payments on the Notes Payable were required to be made by December 31, 1998.

As of December 31, 1998, the aggregate principal maturities of the Notes Payable are as follows (in thousands):

| | |
|-----------|---------|
| 1999..... | \$1,614 |
| 2000..... | 1,936 |
| 2001..... | 2,111 |
| 2002..... | 2,291 |
| 2003..... | 2,489 |
| 2004..... | 5,882 |

In connection with the Notes Payable, the Company issued a warrant to purchase 200,000 shares of Series C preferred stock at an exercise price of \$8.00 per share. The warrants are immediately exercisable and expire ten years from the date of issuance. The fair value of the warrants at the date of the issuance was estimated to be approximately \$1.4 million using the Black-Scholes option pricing model. The Company has recorded the fair value of the warrants as a deferred charge which will be amortized over the term of the Notes Payable.

6. COMMITMENTS AND CONTINGENCIES:

The Company leases its facilities under operating leases which expire through September 2001. In addition, the Company leases certain of its equipment under capital leases. As of December 31, 1998, the future minimum lease commitments under all leases were as follows (in thousands):

| | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| | ----- | ----- |
| 1999..... | \$29 | \$ 647 |
| 2000..... | 4 | 517 |
| 2001..... | 4 | 62 |
| 2002..... | 3 | -- |
| | --- | ----- |
| Total minimum lease payments..... | 40 | \$1,226 |
| | | ===== |
| Less: Amounts representing interest..... | (4) | |
| | --- | |
| Present value of minimum lease payments..... | \$36 | |
| | === | |

Rent expense under operating leases for the years ended December 31, 1996, 1997 and 1998 was approximately \$139,000, \$248,000 and \$364,000, respectively.

As of December 31, 1997 and 1998, the Company has accrued royalties of approximately \$6.5 million and \$5.1 million, respectively. The Company has entered into royalty agreements in fiscal 1998 and continues to negotiate royalty agreements with several other third parties. Accordingly, the Company has accrued its best estimate of the amount of royalties payable based on royalty agreements already signed or in negotiation, as well as advice from patent counsel. Should the final agreements result in royalty rates significantly different from these assumptions, the Company's business, operating results and financial condition could be materially and adversely affected.

During 1998, Motorola, Inc. ("Motorola") filed an action for patent infringement against the Company (and one other defendant) of seven Motorola patents. In its complaint, Motorola seeks damages for the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Company's alleged infringement, including treble damages for the Company's alleged willful infringement and an injunction against the Company. Motorola is also seeking attorney's fees and costs.

The Company filed an answer to Motorola's complaint denying infringement of the seven asserted Motorola patents and asserted that each patent is invalid or unenforceable. In addition, the Company asserted counterclaims and declaratory relief for invalidity and/or unenforceability and noninfringements of each of the seven asserted Motorola patents. By its counterclaims, the Company seeks compensatory and punitive damages, an injunction against Motorola, and an award of treble damages for Motorola's violation of the Federal and state antitrust laws, and for violation of Massachusetts General Law. The Company also seeks its costs and attorney's fees in this action. An initial conference with the Court under Delaware local rule was held in April 1999 and discovery started in June 1999.

Due to the nature of litigation generally and because the lawsuit brought by Motorola is at an early stage, management cannot ascertain the availability of injunctive relief or other equitable remedies or estimate the total expenses, possible damages or settlement value, if any, that may ultimately be incurred in connection with Motorola's suit. However, management believes, based on the advice of legal counsel, that the Company has meritorious defenses to the allegations contained in Motorola's complaint. This litigation could be time consuming and costly, and the Company will not necessarily prevail given the inherent uncertainties of litigation. In the event that the Company does not prevail in litigation, the Company could be prevented from selling soft modem products or be required to enter into royalty or licensing agreements or pay monetary damages. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all. In the event of a successful claim against the Company, the Company's financial position and results of operations could be materially adversely affected.

7. PREFERRED STOCK:

Series A convertible preferred stock ("Series A"), Series B convertible preferred stock ("Series B") and Series C convertible preferred stock ("Series C") consist of the following, net of issuance costs (dollars in thousands):

| | December 31, | | June 30, |
|---|--------------|-------|-------------|
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| | | | (unaudited) |
| Series A: | | | |
| \$0.001 par value; Authorized--4,635,548 | | | |
| Outstanding--4,635,548 shares; liquidation preference of \$1,113..... | \$ 5 | \$ 5 | \$ 5 |
| Series B: | | | |
| \$0.001 par value; Authorized--3,250,000 | | | |
| Outstanding--3,250,000 shares; liquidation preference of \$3,900..... | 3 | 3 | 3 |
| Series C: | | | |
| \$0.001 par value; Authorized--1,500,000 | | | |
| Outstanding or subscribed--625,200 shares; liquidation preference of \$5,002..... | 1 | 1 | 1 |
| | ----- | ----- | --- |
| | \$ 9 | \$ 9 | \$ 9 |
| | ===== | ===== | === |

The Series C preferred stock was subscribed as of December 31, 1997 and was subsequently issued, and payment was received, in February 1998. Accordingly, a subscription receivable of approximately \$5.0 million was recorded as a current asset at December 31, 1997 in the accompanying consolidated balance sheets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The rights, restrictions and preferences of the Series A, Series B and Series C (collectively "convertible preferred stock") are as follows:

- . In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series C shares shall be entitled to receive \$8.00 per share, prior and in preference to any distribution of the assets or surplus funds to the holders of Series A, Series B and common stock, plus all declared but unpaid dividends on each share of Series C. After payment of the full amount due to the holders of Series C, the holders of Series A and Series B shall be entitled to receive, prior to any distribution of the Company's assets or property to the holders of common stock, the amount of \$0.24 and \$1.20 per share, respectively, plus all declared but unpaid dividends on each share of Series A and Series B. The Series A and Series B shall rank on parity as to the receipt of any respective preferential amount for Series A and Series B shares. After payment of the full amount to Series A, Series B and Series C shareholders, the holders of common stock shall be entitled to receive an amount per share equal to \$82,000 divided by the number of common shares outstanding at the time of distribution (excluding shares of common then issuable upon conversion of the convertible preferred stock). Any remaining assets shall be distributed ratably to the holders of convertible preferred stock and common stock, each share of preferred being treated as the number of shares of common into which it could then be converted.
- . Each share of convertible preferred stock is convertible, at the option of the shareholder, into one share of common stock, subject to adjustments to prevent dilution as provided in the respective stock agreements.
- . The holders of convertible preferred stock are entitled to the number of votes equal to the number of shares of common stock into which each share of convertible preferred stock could be converted.
- . Each share of convertible preferred stock will automatically convert into common stock in the event of the closing of an underwritten public offering of the Company's common stock from which the Company receives gross proceeds in excess of \$15,000,000 and for which the offering price is not less than \$16.00 per share.
- . Each convertible preferred stock shareholder is entitled to receive annual dividends at a rate of \$0.019 per Series A share, \$0.096 per Series B share and \$0.64 per Series C share when, and if, declared by the Board of Directors. No dividends shall be paid on shares of Series A or Series B or common stock until total dividends have been paid, declared or set apart for Series C shareholders. Series A, Series B and Series C shareholders shall receive dividends prior to payment of dividends on common stock. Dividends are non-cumulative. No dividends have been declared to date.

8. COMMON STOCK:

As of June 30, 1999, the Company had reserved shares of its common stock for future issuance as follows (unaudited):

| | |
|--|------------|
| Conversion of Series A preferred stock..... | 4,635,548 |
| Conversion of Series B preferred stock..... | 3,250,000 |
| Conversion of Series C preferred stock..... | 625,200 |
| Conversion of Series C and common stock warrants..... | 202,417 |
| 1995 and 1997 Stock Option Plans..... | 4,208,670 |
| Director Option Plan and Employee Stock Purchase Plan..... | 1,000,000 |
| | ----- |
| | 13,921,835 |
| | ===== |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Unaudited Pro Forma Stockholders' Equity

The Board of Directors have authorized the filing of a registration statement with the Securities and Exchange commission to register shares of its common stock in connection with a proposed initial public offering ("IPO"). If the IPO is consummated under the terms presently anticipated, all of the currently outstanding preferred stock will be converted into 8,510,748 shares of common stock upon the closing of the IPO. The effect of the conversion has been reflected as unaudited pro forma stockholders' equity in the accompanying balance sheet as of June 30, 1999.

Stock Option Plans

The Company has two stock option plans, the 1995 Stock Option Plan ("1995 Plan") and the 1997 Stock Option Plan ("1997 Plan"). Under the 1995 Plan and the 1997 Plan, the Board of Directors may grant to employees and consultants options and/or purchase rights to purchase the Company's common stock at terms and prices determined by the Board of Directors. The number of authorized shares available for issuance under the 1995 Plan was 3,200,000. As of December 31, 1998, the number of shares that remain available to be granted under the 1995 Plan is 152,673. The number of authorized shares available for issuance under the 1997 Plan is 3,500,000. As of December 31, 1998, the number of shares that remain available to be granted under the 1997 Plan is 1,049,772.

In May 1998, the Board of Directors approved an increase in the number of authorized shares available for issuance under the 1997 Plan to 4,500,000 shares of common stock. In August 1999, the Board of Directors approved the amendment and restatement of the 1997 Plan and approved an additional increase in the number of authorized shares available for issuance under the 1997 Plan to 5,500,000 shares of common stock. The increase to 5,500,000 authorized shares requires stockholder approval. The number of authorized shares under the 1997 Plan will increase annually by an amount equal to the lesser of (i) 700,000 shares, (ii) 4% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. The exercise price and vesting of all grants are to be determined by the Board of Directors. Options granted under the 1997 Plan expire 10 years from the date of grant. The 1997 Plan will terminate in 2007.

1998 Director Option Plan ("Directors Plan")

The Directors Plan will not become effective until the effectiveness of the proposed initial public offering. A total of 200,000 shares of common stock have been reserved for issuance under the Directors Plan. The 1998 Director's Plan provides for the automatic grant of 15,000 shares of common stock to each new non-employee director upon election to the Board of Directors. The 15,000 share options will vest one-third as of each anniversary of its date of grant until the option is fully vested, provided that the optionee continues to serve as a director on such dates. After the initial 15,000 share option is granted to the non-employee director, he or she shall automatically be granted an option to purchase 7,500 shares each year on January 1, if on such date he or she shall have served on the Board of Directors for at least six months. The 7,500 share options shall vest completely on the anniversary of their date of grant, provided that the optionee continues to serve as a director on such dates. All of the options granted under the 1998 Director's Plan shall have a term of 10 years. The exercise price of all options shall be 100% of the fair market value per share of the common stock, generally determined with reference to the closing price of the common stock as reported on the Nasdaq National Market on the date of grant.

Employee Stock Purchase Plan ("Purchase Plan")

In May 1998, a total of 800,000 shares of common stock were reserved for future issuance under the Purchase Plan, plus annual increases equal to the lesser of (i) 350,000 shares (ii) 2% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. The Purchase Plan will enable eligible employees to purchase common stock at the lower of 85% of the fair market value of the Company's

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

common stock on the first or last day of each six-month offering period. The first offering period will begin upon the closing date of the proposed initial public offering. The Purchase Plan will terminate in 2008.

Nonqualified options granted under the 1995 Plan and 1997 Plan must be issued at a price equal to at least 85% of the fair market value of the Company's common stock at the date of grant. The options may be exercised at any time within ten years of the date of grant or within ninety days of termination of employment, or such shorter time as may be provided in the stock option agreement, and vest over a vesting schedule determined by the Board of Directors.

Deferred Compensation

In connection with the grant of certain stock options to employees during fiscal 1998 and the six months ended June 30, 1999, the Company recorded deferred compensation of \$257,000 and \$2.1 million, respectively, representing the difference between the estimated fair value of the common stock for accounting purposes and the option exercise price of such options at the date of grant. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable options. During 1996, the Company granted options to purchase shares of common stock at an exercise price below the fair value of the Company's common stock at the date of grant. Compensation expense of \$41,000 was recognized in relation to those grants in the year ended December 31, 1996. The amortization expense relates to options awarded to employees in all operating expense categories. The amortization of deferred compensation has not been separately allocated to these categories. The amount of deferred compensation expense to be recorded in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

Valuation of Stock Options

Pro forma information regarding net income and net income per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The fair value for the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for fiscal years 1996, 1997 and 1998: risk-free interest rates in the range of 5.2% to 6.5%; dividend yields of zero; an estimated volatility factor of the market price of the Company's common stock in the range of 40% to 55%; and an expected life of the option of six months after vest date. The weighted-average estimated fair value of options granted during fiscal 1996, 1997 and 1998 was \$0.37, \$2.32 and \$3.43 per share, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting periods. The Company's pro forma net income (loss) would have been approximately \$3.0 million, \$2.0 million and \$(984,000) for fiscal years 1996, 1997 and 1998, respectively. Pro forma diluted net income (loss) per share would have been \$0.29, \$0.17 and (\$0.42) for fiscal years 1996, 1997 and 1998, respectively.

The following table summarizes stock option activity under the 1995 Plan and 1997 Plan:

| | Options Available | Options Outstanding | |
|---|-------------------|---------------------|---------------------------------|
| | | Shares | Weighted Average Exercise Price |
| Balance, December 31, 1995..... | 437,003 | 2,762,997 | \$0.02 |
| Granted..... | (674,670) | 674,670 | \$0.26 |
| Exercised..... | -- | (1,454,999) | \$0.02 |
| Forfeited..... | 237,667 | (237,667) | \$0.05 |
| Balance, December 31, 1996..... | -- | 1,745,001 | \$0.12 |
| Authorized..... | 1,500,000 | -- | -- |
| Granted..... | (1,172,830) | 1,172,830 | \$2.32 |
| Exercised..... | -- | (753,991) | \$0.03 |
| Forfeited..... | 95,590 | (95,590) | \$0.91 |
| Balance, December 31, 1997..... | 422,760 | 2,068,250 | \$1.36 |
| Authorized..... | 2,000,000 | -- | -- |
| Granted..... | (1,393,900) | 1,393,900 | \$8.13 |
| Exercised..... | -- | (203,257) | \$0.17 |
| Forfeited..... | 173,585 | (173,585) | \$2.52 |
| Balance, December 31, 1998..... | 1,202,445 | 3,085,308 | \$4.43 |
| Granted (unaudited)..... | (893,193) | 893,193 | \$9.83 |
| Exercised (unaudited)..... | -- | (79,083) | \$0.12 |
| Forfeited (unaudited)..... | 83,708 | (83,708) | \$7.18 |
| Balance, June 30, 1999 (unaudited)..... | 392,960 | 3,815,710 | \$5.72 |
| | ===== | ===== | ===== |

| Range of Exercise Prices | Number Outstanding at December 31, 1998 | Options Outstanding | | Options Exercisable | |
|--------------------------|---|---|---------------------------------|--------------------------------------|---------------------------------|
| | | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number Exercisable December 31, 1998 | Weighted-Average Exercise Price |
| \$0.02-\$0.12 | 389,583 | 7.09 | \$0.07 | 307,832 | \$0.05 |
| \$0.48-\$0.48 | 528,000 | 8.00 | \$0.48 | 283,190 | \$0.48 |
| \$1.25-\$2.00 | 423,200 | 8.10 | \$1.40 | 197,721 | \$1.39 |
| \$2.35-\$3.50 | 244,000 | 8.33 | \$3.01 | 99,968 | \$3.00 |
| \$4.50-\$4.85 | 87,500 | 9.12 | \$4.76 | 8,438 | \$4.50 |
| \$7.45-\$9.25 | 1,413,025 | 9.32 | \$8.24 | 30,355 | \$7.45 |
| | 3,085,308 | | \$4.43 | 927,504 | |
| | ===== | | | ===== | |

Warrants

In connection with the issuance of the Series C preferred stock, the Company issued warrants to a Company advisor to acquire 31,260 shares of common stock at \$6.96 per share. The warrants expired unexercised in February 1999. The fair value of this warrant at the date of issuance was \$50,000 and this

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

amount has been included as an issuance cost of the Series C preferred stock. The Company also issued warrants to acquire 2,417 shares of common stock at \$8.00 in February 1998. The warrants expire in February 2001 and the fair value at the date of issuance was not material. See Note 5 for warrants to purchase 200,000 shares of Series C preferred stock issued in conjunction with the Company's Notes Payable arrangements.

9. INCOME TAXES:

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 requires that deferred taxes be calculated using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

The domestic and foreign components of income before provision for income taxes were as follows (in thousands):

| | Year Ended December 31, | | |
|---------------|-------------------------|----------|-----------|
| | 1996 | 1997 | 1998 |
| Domestic..... | \$ 4,009 | \$ 2,438 | (\$1,390) |
| Foreign..... | -- | 818 | 2,097 |
| | \$ 4,009 | \$ 3,256 | \$ 707 |
| | ===== | ===== | ===== |

The provision for income taxes consisted of the following (in thousands):

| | Year Ended December 31, | | |
|--------------|-------------------------|--------|----------|
| | 1996 | 1997 | 1998 |
| Current: | | | |
| Federal..... | \$ 2,848 | \$ 827 | \$ 1,188 |
| State..... | 646 | 237 | 482 |
| Foreign..... | -- | 82 | 67 |
| | 3,494 | 1,146 | 1,737 |
| Deferred: | | | |
| Federal..... | (2,152) | (240) | (942) |
| State..... | (337) | 49 | (583) |
| | (2,489) | (191) | (1,525) |
| | \$ 1,005 | \$ 955 | \$ 212 |
| | ===== | ===== | ===== |

The provision for income taxes differs from the amount computed by applying the Federal statutory income tax rate as follows (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|----------|--------|
| | 1996 | 1997 | 1998 |
| Provision at Federal statutory rate..... | \$ 1,403 | \$ 1,140 | \$ 247 |
| State income tax, net of Federal benefit..... | 241 | 95 | 25 |
| Change in valuation allowance..... | (577) | -- | -- |
| Foreign taxes in excess of statutory rate..... | -- | 82 | 67 |
| R & D credit..... | -- | (224) | (310) |
| Other..... | (62) | (138) | 183 |
| | \$ 1,005 | \$ 955 | \$ 212 |
| | ===== | ===== | ===== |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The net deferred tax asset consists of the following (in thousands):

| | December 31, | |
|--|--------------|---------|
| | 1997 | 1998 |
| Accrued royalties..... | \$2,070 | \$1,152 |
| Inventory reserve..... | 58 | 262 |
| Deferred amortization of purchased assets..... | -- | 2,302 |
| California income tax payable..... | 82 | -- |
| Other cumulative temporary differences..... | 470 | 489 |
| | \$2,680 | \$4,205 |
| | ===== | ===== |

Other cumulative temporary differences consist of items currently deductible for financial reporting purposes, but not for tax purposes. These items are primarily estimated reserves and accruals. The realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Although realization is not assured, management believes it is more likely than not that the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during future years is reduced.

10. RELATED PARTY TRANSACTIONS:

The President of a significant customer of the Company was a member of the Company's Board of Directors from inception to November 1, 1997. For the years ended December 31, 1996 and 1997, revenues generated from sales to this related party customer were approximately \$1.7 million and \$2.2 million, respectively.

11. INDUSTRY SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION:

Effective January 1, 1998, the Company adopted SFAS No. 131, ("SFAS 131") "Disclosures About Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for business segments of a company and related disclosures. The Company is organized based upon the nature of the products it offers. Under this organizational structure, the Company operates in one segment, that segment being software-based modems using host signal processing technology. The Company markets its products worldwide through its sales personnel, independent sales representatives and distributors.

The Company's sales to customers outside of the United States, as a percent of total revenues, are as follows:

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|------------------------|-------------------------|-------|-------|------------------------------|-------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | ----- | ----- | ----- | ----- | ----- |
| | (unaudited) | | | | |
| Taiwan..... | 37% | 46% | 48% | 62% | 21% |
| China (Hong Kong)..... | 15% | 20% | -- | -- | 47% |
| Singapore..... | 19% | 9% | -- | -- | 2% |
| Rest of Asia..... | 3% | 2% | 28% | 15% | 29% |
| Other..... | 9% | 2% | 1% | 3% | -- |
| | ----- | ----- | ----- | ----- | ----- |
| | 83% | 79% | 77% | 80% | 99% |
| | ===== | ===== | ===== | ===== | ===== |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Sales to major customers representing greater than 10% of total revenues are as follows:

| Customer | Year Ended December 31, | | | Six Months Ended June 30, | |
|-------------------------------------|-------------------------|------|------|---------------------------|------|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| | | | | (unaudited) | |
| A, related party (See Note 10)..... | 10% | 9% | 13% | 5% | -- |
| B..... | 16% | 4% | 12% | 21% | 6% |
| C..... | 5% | 6% | 15% | 11% | 10% |
| D..... | 22% | 20% | 4% | 15% | 1% |
| E..... | 13% | -- | -- | -- | -- |
| F..... | -- | 18% | 12% | 12% | 3% |
| G..... | -- | -- | 8% | -- | 20% |
| H..... | -- | -- | 3% | -- | 42% |

As of December 31, 1997, the Company's long-lived assets were primarily located in the United States. The Company's long-lived assets, comprising primarily intangible assets, by geographic region as of December 31, 1998 and June 30, 1999 are as follows:

| | December 31, 1998 | June 30, 1999 |
|---------------------|----------------------|------------------|
| | (unaudited) | |
| United States..... | \$5,357 | \$5,314 |
| Cayman Islands..... | \$8,178 | \$7,399 |

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Management of
General DataComm, Inc.:

In our opinion, the accompanying balance sheets and the related statements of income and divisional equity and of cash flows present fairly, in all material respects, the financial position of the Communications Systems Division, a division of General DataComm, Inc., at September 30, 1998 and 1997, and the results of its operations and its cash flows for each of the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Stamford, Connecticut
December 15, 1998

COMMUNICATIONS SYSTEMS DIVISION

BALANCE SHEETS

| | September 30, | |
|--|----------------|---------|
| | 1998 | 1997 |
| | (in thousands) | |
| ASSETS | | |
| Assets: | | |
| Fixed assets, net..... | \$ 119 | \$ 117 |
| Capitalized software..... | 1,993 | 1,359 |
| Security deposit and accrued interest..... | 8 | -- |
| Patents..... | -- | -- |
| | ----- | ----- |
| Total assets..... | \$2,120 | \$1,476 |
| | ===== | ===== |
| LIABILITIES | | |
| Liabilities: | | |
| Income taxes payable..... | \$ 568 | \$ 940 |
| Deferred income tax liabilities..... | 251 | 535 |
| | ----- | ----- |
| Total liabilities..... | 819 | 1,475 |
| | ----- | ----- |
| Divisional Equity..... | 1,301 | 1 |
| | ----- | ----- |
| Total liabilities and divisional equity..... | \$2,120 | \$1,476 |
| | ===== | ===== |

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

COMMUNICATIONS SYSTEMS DIVISION
STATEMENTS OF INCOME AND DIVISIONAL EQUITY

| | For the years ended September 30, | |
|---|---|---------|
| | 1998 | 1997 |
| | (in thousands) | |
| Licensing revenues..... | \$3,531 | \$4,564 |
| Operating Expenses: | | |
| General and Administrative..... | 135 | 83 |
| Selling and Marketing..... | 174 | 146 |
| Research and Development..... | 1,209 | 685 |
| | 1,518 | 914 |
| Net income before income taxes..... | 2,013 | 3,650 |
| Income tax provision..... | 819 | 1,475 |
| | 1,194 | 2,175 |
| Net income..... | \$1,194 | \$2,175 |
| Divisional equity at beginning of year..... | \$ 1 | \$ 133 |
| Cash transfer from (to) parent..... | 106 | (2,307) |
| | \$1,301 | \$ 1 |
| Divisional equity at end of year..... | ===== | ===== |

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

COMMUNICATIONS SYSTEMS DIVISION

STATEMENTS OF CASH FLOWS

| | For the years ended September 30, | |
|---|---|---------|
| | 1998 | 1997 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income..... | \$1,194 | \$2,175 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation expense..... | 78 | 62 |
| Increase in security deposit..... | (8) | -- |
| (Decrease) increase in income taxes payable..... | (372) | 940 |
| (Decrease) increase in deferred income taxes..... | (284) | 526 |
| | ----- | ----- |
| Net cash provided by operating activities..... | 608 | 3,703 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment..... | (80) | (37) |
| Capitalized software development costs..... | (634) | (1,359) |
| | ----- | ----- |
| Net cash used in investing activities..... | (714) | (1,396) |
| Net cash borrowed from (transferred to) GDC..... | 106 | (2,307) |
| | ----- | ----- |
| Net increase in cash and cash equivalents..... | -- | -- |
| Cash and cash equivalents at beginning of year..... | -- | -- |
| | ----- | ----- |
| Cash and cash equivalents at end of year..... | \$ -- | \$ -- |
| | ===== | ===== |

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

COMMUNICATIONS SYSTEMS DIVISION

NOTES TO FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Communications Systems Division (the "Company") is a division of General DataComm, Inc., which is a subsidiary of General DataComm Industries, Inc. ("GDC"). The Company, which is principally comprised of scientists and engineers, develops, patents and licenses advanced modem and access technologies.

Basis of Presentation

The Company's balance sheets and statements of operations include assets, liabilities, revenues and expenses that are specifically identifiable to the Company. In addition, GDC provides certain services, as discussed in Note 6, which are allocated to the Company.

Cash

All cash balances are transferred to GDC as they arise.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated or amortized using the straight-line method over their estimated useful lives.

Capitalized Software Development Costs

Software development costs are capitalized for those products that have met the requirements of technological feasibility. When the products under development begin to be sold, such capitalized costs will be amortized on a product-by-product basis over the estimated economic life of the product. No amortization was recorded in either fiscal 1998 or fiscal 1997 as the products in development had reached the technological feasibility stage but had not reached the marketability stage. Unamortized costs are reviewed for recoverability and, if necessary, are adjusted so as not to exceed estimated net realizable value.

Patents

The Company holds various technology patents. The third party cost of these patents has been fully amortized. Registration costs are expensed as incurred.

Revenue Recognition

The Company has entered into numerous technology licensing agreements whereby licensees pay the Company fees for the use or sale of specific patented technology. Technology licensing fee revenue is recognized in the period received, or alternatively, may be accrued when readily determinable.

Income Taxes

Income taxes are calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." This statement requires that deferred income taxes reflect the impact of temporary differences in bases of assets and liabilities recognized for financial reporting purposes and amounts recognized for tax purposes. As a division, the Company is included in the consolidated income tax returns of GDC, however, the Company's provision for income taxes has been calculated on a separate return basis.

COMMUNICATIONS SYSTEMS DIVISION

NOTES TO FINANCIAL STATEMENTS--(Continued)

Employee Benefits and Incentive Plans

The Company's employees participate in plans for post-retirement benefits, post-employment benefits, stock option plans, and retirement savings and deferred profit sharing plans, which are sponsored by GDC. No assets, liabilities or expenses have been reflected in the balance sheets and statements of operations related to the post-retirement and post-employment plans, as it is not practical to segregate these amounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates. For example, the markets the Company is involved in are characterized by intense competition, rapid technological development and frequent new product introductions, all of which could impact the future value of the Company's capitalized software.

2. Property, Plant and Equipment

Property, plant and equipment consists of:

| | September 30, | | Estimated Useful Life |
|--|------------------|-------|--------------------------|
| | 1998 | 1997 | |
| Test equipment and fixtures, office equipment..... | \$651 | \$578 | 2 to 10 years |
| Less: accumulated depreciation..... | 532 | 461 | |
| | \$119 | \$117 | |
| | ==== | ===== | |

Depreciation expense amounted to \$78 and \$62 in fiscal 1998 and 1997, respectively.

3. Income Taxes

For purposes of the financial statements, income taxes are provided on a stand-alone basis as if the Company is a separate entity.

The provision for income taxes consists of the following amounts:

| | September 30, | |
|----------------------|------------------|---------|
| | 1998 | 1997 |
| Current: | | |
| State..... | \$146 | \$ 246 |
| Federal..... | 422 | 694 |
| | 568 | 940 |
| Deferred: | | |
| State..... | \$ 66 | \$ 144 |
| Federal..... | 185 | 391 |
| | 251 | 535 |
| Total provision..... | \$819 | \$1,475 |
| | ===== | ===== |

COMMUNICATIONS SYSTEMS DIVISION

NOTES TO FINANCIAL STATEMENTS--(Continued)

The tax effects of temporary differences which give rise to deferred income tax assets and liabilities consisted of the following:

| | September 30, | |
|--|------------------|---------|
| | 1998 | 1997 |
| Deferred income tax assets: | | |
| Property, plant and equipment..... | \$ 3 | \$ 8 |
| Deferred income tax liabilities: | | |
| Capitalized software..... | (254) | (543) |
| Net deferred income tax liabilities..... | \$(251) | \$(535) |
| | ===== | ===== |

4. Operating Leases

GDC entered into an operating lease on June 1, 1998 to provide separate facilities for the operation of the Company. Such lease expires in May 2001. The lease contains renewal options and provisions for payment by the lessee of executory costs (taxes, maintenance and insurance).

The following is a schedule of the future minimum payments under the lease as of September 30, 1998:

| Year | Amount |
|------|--------|
| ---- | ----- |
| 1999 | \$50 |
| 2000 | 50 |
| 2001 | 33 |

Rent expense under the lease was \$17 for the year ended September 30, 1998. Prior to June 1, 1998, the operations of the Company were conducted in facilities shared with other GDC operations. The amounts allocated by GDC, which are included in the statements of income, were \$74 and \$100 for September 30, 1998 and 1997, respectively.

5. Employment Incentive Plans

Stock Option Plans

Officers and key employees of GDC may be granted incentive stock options at an exercisable price equal to or greater than the market price on the date of grant and non-incentive stock options at an exercisable price equal to or less than the market price on the date of grant. While individual options can be issued under various provisions, most options, once granted, generally vest in increments of 25% per year over a four-year period and expire within ten years.

COMMUNICATIONS SYSTEMS DIVISION

NOTES TO FINANCIAL STATEMENTS--(Continued)

The following summarizes activity related to the Company in fiscal 1997 and 1998 under these stock option plans:

| | Shares | Weighted Average Exercise Price |
|---|----------|---------------------------------------|
| | ----- | ----- |
| Options outstanding, September 30, 1996 (10,497 exercisable)..... | 79,747 | \$6.49 |
| Options granted..... | 86,530 | 7.44 |
| Options exercised..... | -- | -- |
| Options cancelled or expired..... | (53,890) | 6.50 |
| | ----- | ----- |
| Options outstanding, September 30, 1997 (20,097 exercisable)..... | 112,387 | 6.60 |
| Options granted..... | 85,750 | 4.32 |
| Options exercised..... | -- | -- |
| Options cancelled or expired..... | (11,450) | 7.14 |
| | ----- | ----- |
| Options outstanding, September 30, 1998 (30,632 exercisable)..... | 186,687 | \$6.96 |
| | ===== | ===== |

The following summarizes additional information related to the Company regarding options outstanding and exercisable options as of September 30, 1998:

| Options Outstanding at September 30, 1998 | | | Weighted Average Contractual Life (Years) | Options Exercisable at September 30, 1998 | |
|---|------------------------|--|---|---|---|
| Exercise Prices | Number of Shares | Weighted Average Exercise Price | | Number of Shares | Weighted Average Contractual Price |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$ 3.38-\$ 4.81 | 65,947 | \$ 3.81 | 9.47 | 197 | \$ 4.81 |
| \$ 5.25-\$ 6.75 | 89,540 | 6.34 | 7.98 | 19,035 | 5.63 |
| \$ 7.31-\$ 9.63 | 25,700 | 8.95 | 7.46 | 9,900 | 6.83 |
| \$10.00-\$15.50 | 5,500 | 10.92 | 7.69 | 1,500 | 11.83 |
| | ----- | ----- | ----- | ----- | ----- |
| | 186,687 | \$ 6.96 | 8.43 | 30,632 | \$ 6.96 |

The weighted average option price of exercisable options was \$6.96 and \$6.60 at September 30, 1998 and 1997, respectively. All options granted during the two fiscal years ended September 30, 1998 were granted at an option price equal to fair market value at date of grant.

Employee Retirement Savings and Deferred Profit Sharing Plan

Under the retirement savings provisions of GDC's retirement plan established under Section 401(k) of the Internal Revenue Code, employees are generally eligible to contribute to the plan after three months of continuous service, in amounts determined by the plan. GDC contributes an additional 50 percent of the employee contribution up to certain limits (not to exceed 2 percent of total eligible compensation). Employees become fully vested in GDC's contributions after three years of continuous service, death, disability or upon reaching age 65. The amounts contributed related to the Company's employees for the years ended September 30, 1998 and 1997 were \$28 and \$33, respectively.

The deferred profit sharing provisions of the plan include retirement and other related benefits for substantially all of GDC's full-time employees. Contributions under the plan are funded annually and are based, at a minimum, upon a formula measuring profitability in relation to revenues. Additional amounts may be contributed at the discretion of GDC. There were no such contributions for fiscal 1998 or 1997.

COMMUNICATIONS SYSTEMS DIVISION

NOTES TO FINANCIAL STATEMENTS--(Continued)

6. Related Party Transactions and Net Equity

The Company is comprised of intellectual property and property, plant and equipment and certain employees that GDC has contributed to the business. All of the Company's cash transactions are managed by GDC. All intercompany accounts which represent all contributed property and the net amounts funded by GDC to date are included in divisional equity.

In addition, in fiscal 1998 and fiscal 1997, the Company performed product development work on behalf of GDC. The cost of such work, estimated to be \$434 and \$480, respectively in fiscal 1998 and fiscal 1997, has been excluded from the operating costs included in the Company's statements of income, as these costs have been fully reimbursed by GDC.

GDC provides accounting, treasury, tax and audit, legal, medical and risk insurance services and various other services to the Company. An allocation related to these costs has been made and is included in the statements of income.

PC-TEL, INC. AND COMMUNICATIONS SYSTEMS DIVISION

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(unaudited)

In December 1998, PC-Tel, Inc. (the "Company" or "PC-Tel") completed the acquisition of substantially all the assets and certain liabilities of Communications Systems Division, a division of General DataComm, Inc., a Delaware corporation ("CSD"). CSD develops patents and licenses advanced modem and access technologies. The acquisition of CSD has been accounted for as a purchase.

The accompanying pro forma condensed combined statement of operations for PC-Tel's fiscal year ended December 31, 1998 assumes that the acquisition took place as of January 1, 1998, and combines PC-Tel's statement of operations for the year ended December 31, 1998 and CSD's statement of operations for its fiscal year ended September 30, 1998. No pro forma condensed balance sheet is required as the acquisition of CSD took place in December 1998 and is already reflected in PC-Tel's consolidated balance sheet as of December 31, 1998, included elsewhere in this Prospectus. The pro forma condensed combined statement of operations for the year ended December 31, 1998 does not include the effect of any nonrecurring charges directly attributable to the acquisition.

The purchase price allocation reflected in the accompanying pro forma condensed combined statement of operations has been prepared on an estimated basis. The effects resulting from any differences in the final allocation of the purchase price are not expected to have a material effect on the Company's financial statements.

The accompanying pro forma condensed combined statement of operations should be read in conjunction with the historical financial statements and related notes thereto for both PC-Tel and CSD, which are included in this Prospectus.

PC-TEL, INC. AND COMMUNICATIONS SYSTEMS DIVISION

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(in thousands, except per share data)

| | Year Ended December 31, 1998 | | | |
|---|------------------------------|----------------------|--------------------------|-----------------------|
| | Historical PC-Tel | Historical CSD(a) | Pro Forma Adjustments | Pro Forma Combined |
| | (unaudited) | | | |
| REVENUES | \$33,004 | \$3,531 | \$ (903)(b) | 35,632 |
| COST OF REVENUES..... | 13,878 | -- | (2,162)(c) | 16,040 |
| GROSS PROFIT..... | 19,126 | 3,531 | | 19,592 |
| OPERATING EXPENSES: | | | | |
| Research and development..... | 4,932 | 1,209 | | 6,141 |
| Sales and marketing..... | 5,624 | 174 | | 5,798 |
| General and administrative.... | 2,169 | 135 | | 2,304 |
| Acquired in-process research and development..... | 6,130 | -- | (6,130)(d) | -- |
| Amortization of deferred compensation..... | 43 | -- | | 43 |
| Total operating expenses.... | 18,898 | 1,518 | | 14,286 |
| INCOME FROM OPERATIONS..... | 228 | 2,013 | | 5,306 |
| OTHER INCOME (EXPENSE), net: | | | | |
| Interest income..... | 504 | -- | | 504 |
| Interest expense..... | (25) | -- | (1,530)(e) | (1,555) |
| Total other income (expense), net..... | 479 | -- | | (1,051) |
| INCOME BEFORE PROVISION FOR INCOME TAXES..... | 707 | 2,013 | | 4,255 |
| PROVISION FOR INCOME TAXES..... | 212 | 819 | 246 (f) | 1,277 |
| NET INCOME..... | \$ 495 | \$1,194 | | \$ 2,978 |
| BASIC NET INCOME PER SHARE..... | \$ 0.21 | | | \$ 1.26 |
| DILUTED NET INCOME PER SHARE.... | \$ 0.04 | | | \$ 0.24 |
| SHARES USED IN COMPUTING BASIC EARNINGS PER SHARE..... | 2,355 | | | 2,355 |
| SHARES USED IN COMPUTING DILUTED EARNINGS PER SHARE..... | 12,325 | | | 12,325 |

PC-TEL, INC. AND COMMUNICATIONS SYSTEMS DIVISION

NOTES TO PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
(unaudited)

Note 1. Pro Forma Adjustments

Certain pro forma adjustments have been made to the accompanying pro forma condensed combined statement of operations as described below:

(a) Includes CSD's historical condensed statement of operations for the year ended September 30, 1998.

(b) Reflects the elimination of revenues from licensing arrangements between the Company and CSD.

(c) Reflects the amortization of goodwill and other intangibles acquired of \$10.8 million for CSD which will be amortized on a straight line basis over their estimated weighted average useful lives of five years.

(d) Eliminates the acquired in-process research and development expense of approximately \$6.1 million associated with the acquisition of CSD.

(e) Reflects the interest expense and amortization of deferred finance charges on the debt incurred for the CSD acquisition.

(f) Reflects adjustment to record a provision for income taxes in accordance with PC-Tel's effective tax rate for fiscal 1998.

Inside back cover

Background of space shot of planet earth. Text captions "PCTel Technology for connectivity," "Broadband," "Wireless," "Remote Access," "Analog," and "solutions"

4,600,000 Shares

[PCTel Logo appears here]

Prospectus

, 1999

Banc of America Securities LLC

Warburg Dillon Read LLC

Needham & Company, Inc.

Until , 1999, all dealers that buy, sell or trade the common stock may be required to deliver a prospectus, regardless of whether they are participating in this offering. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by PC-Tel in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

| | | |
|---|----|-------------|
| SEC registration fee..... | \$ | 23,530 |
| NASD filing fee..... | | 9,000 |
| Nasdaq National Market listing fee..... | | 90,000 |
| Printing and engraving costs..... | | 150,000 |
| Legal fees and expenses..... | | 790,000 |
| Accounting fees and expenses..... | | 300,000 |
| Blue sky fees and expenses..... | | 15,000 |
| Transfer agent and registrar fees..... | | 17,000 |
| Directors and officers insurance..... | | 300,000 |
| Miscellaneous expenses..... | | 105,470 |
| | | ----- |
| Total..... | \$ | \$1,800,000 |
| | | ===== |

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors, officers and controller provisions expanding the scope of indemnification beyond that specifically provided by the current law.

Article Ninth of our amended and restated certificate of incorporation provides for the indemnification of directors and officers to the fullest extent permissible under Delaware law.

Article VI of our bylaws provides for the indemnification of officers, directors and third parties acting on behalf of PC-Tel if such person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

We have entered into indemnification agreements with our directors and executive officers, in addition to indemnification provided for in our bylaws, and intended to enter into indemnification agreements with any new directors and executive officers in the future. The indemnification agreements may require us, among other things, to indemnify our directors and officers against certain liability that may arise by reason of their status or service as directors and officers (other than liabilities arising from willful misconduct of culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors and officers' insurance, if available on reasonable terms.

Reference is also made to Section 8 of the Underwriting Agreement contained in Exhibit 1.1 hereto, indemnifying officers and directors of PC-Tel against certain liabilities.

Item 15. Recent Sales of Unregistered Securities

Since inception, we have issued unregistered securities to a limited number of persons, as described below. None of these transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and we believe that each transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) thereof, Regulation D promulgated thereunder or Rule 701 pursuant to compensatory benefit plans and contracts relating to compensation as provided under such Rule 701. The

recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationships with us, to information about us.

1. On or about February 10, 1994 we issued 2,800,000 shares of our common stock at a per share price of \$0.10 for an aggregate purchase price of \$420,000 to our founders and certain individuals with whom we had a pre-existing business or personal relationship.

2. On or about November 4, 1994 we issued 1,613,333 shares of our common stock at a per share price of \$0.25 for an aggregate purchase price of \$605,000 to certain individuals with whom we had a pre-existing business or personal relationship.

3. On May 9, 1995 we effected a recapitalization of our outstanding stock with our then current stockholders by which each share of our common stock was converted into one (1) share of Series A preferred stock and through which we received no consideration.

4. On June 29, 1995 we sold 222,222 shares of our Series A preferred stock at a per share price of \$0.30 for an aggregate purchase price of \$100,000 to certain individuals with whom we had a pre-existing business or personal relationship.

5. Between October 18, 1995 and on or about January 10th of 1996 we sold 3,250,000 shares of our Series B preferred stock at a per share price of \$1.20 to certain individuals with whom we had a pre-existing business or personal relationship.

6. On October 4, 1995, we effected, by amendment to our articles of incorporation, a 3 for 2 reverse stock split of our then outstanding capital stock.

7. On February 4, 1998 we sold 625,200 shares of our Series C preferred stock at a per share price of \$8.00 for an aggregate purchase price of \$5,001,600 to certain accredited investors, as that term is defined under Rule 501 of the Securities Act. State Street Securities, Needham & Company, Inc. and Beckman White & Reed acted as placement agents for us and, as partial consideration for services performed, Beckman White & Reed received a one-year warrant to purchase 31,260 shares of our common stock at an exercise price of \$6.96 per share and State Street Securities, Edward Gibstein, Mitchell Segal, and Irving Minnaker each received three-year warrants to purchase an aggregate of 2,417 shares of our common stock at an exercise price of \$8.00.

8. On December 31, 1998 we issued ten (10) year warrants to purchase an aggregate of 200,000 shares of our Series C preferred stock at an exercise price of \$8.00 to Pentech Financial Services, Inc. and PFF Bank & Trust, Inc. in connection with the Technology Alliance Group acquisition from General DataCom, Inc.

9. From inception to December 31, 1998, we issued and sold an aggregate of 2,412,247 shares of our common stock to employees, consultants, and directors for an aggregate consideration of \$83,421 pursuant to exercise of options granted under our 1995 stock plan, 1997 stock plan, and our 1997 stock plan as amended August 3, 1999.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

*1.1 Form of Underwriting Agreement.

3.1 Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect.

*3.2 Form of Amended and Restated Certificate of Incorporation of the Registrant to be filed after the closing of the offering made under this Registration Statement.

3.3 Amended and Restated Bylaws of the Registrant.

- *4.1 Specimen common stock certificate.
- 4.2 Warrant to purchase shares of Series C preferred stock of the Registrant issued to Pentech Financial Services, Inc.
- 4.3 Warrant to purchase shares of Series C preferred stock of the Registrant issued to PFF Bank and Trust, Inc.
- 4.4 Warrant to purchase shares of common stock of the Registrant issued to Edward Gibstein.
- 4.5 Warrant to purchase shares of common stock of the Registrant issued to Irving Minnaker.
- 4.6 Warrant to purchase shares of common stock of the Registrant issued to Mitchell Segal.
- 4.7 Warrant to purchase shares of common stock of the Registrant issued to State Street Securities, Inc.
- 4.8 Amended and Restated Rights Agreement dated December 31, 1997.
- 4.9 Addendum to the Amended and Restated Rights Agreement by and between the Registrant and PFF Bank and Trust, Inc. dated February 1, 1999.
- 4.10 Addendum to the Amended and Restated Rights Agreement by and between the Registrant and Pentech Financial Services, Inc. dated February 1, 1999.
- *5.1 Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
- 10.1 Form of Indemnification Agreement between PC-Tel and each of its directors and officers.
- 10.2 1995 Stock Option Plan and form of agreements thereunder.
- 10.3 1997 Stock Option Plan, as amended and restated, August 3, 1999, and form of agreements thereunder.
- 10.4 1998 director option plan and form of agreements thereunder.
- 10.5 1998 employee stock purchase plan and form of agreements thereunder.
- 10.6 Employment offer letter between Derek S. Obata and the Registrant dated March 31, 1998.
- 10.7 Employment offer letter between William F. Roach and the Registrant dated July 19, 1999.
- 10.8 Sublease between KLA-Tencor Corporation and the Registrant dated September 24, 1998.
- 10.9 Commercial Security Agreement by and between the Registrant and PPF Bank and Trust and related documents.
- 10.10 Asset Purchase Agreement by and among PC-Tel, Inc., PC-Tel Global Technologies, Ltd. And General Datacomm, Inc. dated as of December 22, 1998.
- 10.11 Escrow Agreement by and between the Registrant and General DataComm, Inc. dated December 22, 1998.
- 10.12 Bonus Pool Disbursement Agreement by and between the Registrant and General DataComm, Inc. dated December 22, 1998.
- 10.13 Form of Acquisition Bonus Agreement by and between the Registrant and General DataComm, Inc. dated on December 22, 1998.
- 10.14 Direct Sales Agreement by and between PC-Tel Global Technologies, Ltd. and Kawasaki LSI U.S.A. dated December 4, 1998.
- 10.15 Volume Purchase Agreement dated June 1, 1998 by and between Silicon Laboratories, Inc. and the Registrant.
- 21.1 List of Subsidiaries of the Registrant.
- 23.1 Consent of Arthur Andersen LLP, Independent Public Accountants.
- 23.2 Consent of PricewaterhouseCoopers, Independent Accountants.
- *23.3 Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
- 24.1 Power of Attorney (see Pages II-5 and II-6).
- 27.1 Financial Data Schedule.

* To be filed by amendment.

(b) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts and Reserves (included on pages S-1 and S-2 of this registration statement).

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings

We hereby undertake to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on the 6th day of August, 1999.

PC-Tel, Inc.

/s/ Peter Chen

By: _____
Peter Chen, Chief Executive
Officer and Chairman

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter Chen and Andrew D. Wahl and each of them, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

| Signature ----- | Title ----- | Date ----- |
|--|--|---------------------------|
| <div style="text-align: center;">/s/ Peter Chen</div> <hr style="width: 100%;"/> <div style="text-align: center;">(Peter Chen)</div> | <div>Chief Executive Officer and Chairman of the Board (Principal Executive Officer)</div> | <div>August 6, 1999</div> |
| <div style="text-align: center;">/s/ William F. Roach</div> <hr style="width: 100%;"/> <div style="text-align: center;">(William F. Roach)</div> | <div>President and Chief Operating Officer</div> | <div>August 6, 1999</div> |
| <div style="text-align: center;">/s/ Andrew D. Wahl</div> <hr style="width: 100%;"/> <div style="text-align: center;">(Andrew D. Wahl)</div> | <div>Vice President, Finance and Chief Financial Officer (Principal Financial Officer)</div> | <div>August 6, 1999</div> |
| <div style="text-align: center;">/s/ William Wen-Liang Hsu</div> <hr style="width: 100%;"/> <div style="text-align: center;">(William Wen-Liang Hsu)</div> | <div>Vice President, Engineering Director</div> | <div>August 6, 1999</div> |

Signature

Title

Date

/s/ Han Yeh

Vice President, Technology
Director

August 6, 1999

(Han Yeh)

/s/ Richard C. Alberding

Director

August 6, 1999

(Richard C. Alberding)

/s/ Martin H. Singer

Director

August 6, 1999

(Martin H. Singer)

/s/ Wen C. Ko

Director

August 6, 1999

(Wen C. Ko)

/s/ Michael Min-Chu Chen

Director

August 6, 1999

(Michael Min-Chu Chen)

/s/ Giacomo Marini

Director

August 6, 1999

(Giacomo Marini)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To PC-Tel, Inc.:

We have audited, in accordance with generally accepted auditing standards, the financial statements of PC-Tel, Inc. (a Delaware corporation) included in this Registration Statement and have issued our report thereon dated March 4, 1999. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth herein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

San Jose, California
March 4, 1999

S-1

PC-TEL, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

| Description ----- | Balance at Beginning of Period ----- | Charged to Costs and Expenses ----- | Deductions ----- | Balance at End of Period ----- |
|---|---|--|---------------------|--------------------------------------|
| Year Ended December 31, 1996: | | | | |
| Allowance for doubtful accounts..... | \$ -- | \$ 70 | \$ -- | \$ 70 |
| Year Ended December 31, 1997: | | | | |
| Allowance for doubtful accounts..... | \$ 70 | \$ 534 | \$ -- | \$ 604 |
| Year Ended December 31, 1998: | | | | |
| Allowance for doubtful accounts..... | \$604 | \$3,356 | \$(2,271) | \$1,689 |

EXHIBIT INDEX

| Number | Description |
|--------|---|
| ----- | ----- |
| *1.1 | Form of Underwriting Agreement. |
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Number Description

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- *23.3 Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
- 24.1 Power of Attorney (see Pages II-5 and II-6).
- 27.1 Financial Data Schedule.
- * To be filed by amendment

RESTATED
CERTIFICATE OF INCORPORATION
OF PC-TEL, INC.

PC-Tel, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

A. The name of the corporation is PC-Tel, Inc. The corporation was originally incorporated under the same name and the original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on July 6, 1998.

B. This Certificate of Incorporation has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the Board of Directors and the Stockholders of the corporation.

C. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of this corporation.

D. The text of the Certificate of Incorporation is hereby amended and restated in its entirety to read as follows:

Article I.

The name of the corporation is PC-Tel, Inc. (the "Company").

Article II.

The address of the Company's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

Article III.

The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

Article IV.

This corporation is authorized to issue two classes of stock to be designated respectively Preferred Stock ("Preferred") and Common Stock ("Common"). This Corporation is authorized to issue 20,000,000 shares of Common, \$0.001 par value. This corporation is authorized to issue three series of Preferred which shall be known as Series A Preferred Stock (the "Series A Preferred") consisting of 4,635,548 shares, \$0.001 par value, Series B Preferred Stock (the "Series B Preferred") consisting of 3,250,000 shares, \$0.001 par value, and Series C Preferred Stock (the "Series C Preferred") consisting of 1,500,000 shares, \$0.001 par value. Except as specifically set forth herein, reference hereafter to "Preferred Stock" or "Preferred" shall mean the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock.

Upon the automatic conversion of all outstanding shares of Preferred in accordance with the provisions of Article IV, Section 4(b) of this Restated Certificate of Incorporation (the "Automatic Conversion Event"), the Company shall immediately thereafter be authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares of Common Stock which the Company shall have the authority to issue shall be 50,000,000, \$0.001 par value, and the total number of shares of Preferred Stock the Company shall have the authority to issue shall be 5,000,000, \$0.001 par value. Immediately following any Automatic Conversion Event, the Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board). The Board of Directors is further authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares of any series of Preferred Stock and the designation of any such series of Preferred Stock. The Board of Directors, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares in any such series then outstanding), the number of shares of any series subsequent to the issue of shares of that series.

Immediately following any automatic Conversion Event, the Board of Directors of the Company is authorized, without the further consent or approval of the stockholders of the Company to amend and restate this Restated Certificate of Incorporation to show the authorized class of capital stock as set forth in the preceding paragraph and to eliminate all references in this Restated Certificate of Incorporation to the rights, preferences, privileges and restrictions of the Series of Preferred Stock including those set forth in this Article IV (and, in connection with any such amendment and restatement, to renumber the remaining Articles).

The relative rights, preferences, privileges and restrictions granted to or imposed upon the respective classes of the shares of capital stock or the holders thereof are as set forth below.

Section 1. Dividend Rights of Preferred. The holders of the Series A

Preferred, Series B Preferred and Series C Preferred shall be entitled to receive, prior and in preference to any distribution of dividends to the holders of the Common, when and as declared by the Board of Directors, out of any funds legally available therefor, dividends at the rate of \$0.019, \$0.096 and \$0.64 per annum per share, respectively. No dividends shall be paid on any shares of Series A Preferred, Series B Preferred or Common during any fiscal year of the corporation until dividends in the total amount set forth above per share of Series C Preferred per annum on the shares of Series C Preferred shall have been paid or declared and set apart during that fiscal year. Dividends declared herein shall not be cumulative and no right to such dividends shall accrue to holders of Series A Preferred, Series B Preferred or Series C Preferred unless declared by the Board of Directors.

Section 2. Liquidation Preference. In the event of any liquidation,

dissolution or winding up of the corporation, either voluntary or involuntary, distributions to the shareholders of the corporation shall be made in the following manner:

(a) In the event of any liquidation, dissolution or winding up of the corporation, the holders of Series C Preferred shall be entitled to receive, prior and in preference to any distribution of any assets or property of the corporation to the holders of the Series A Preferred, Series B Preferred and Common, an amount per share equal to \$8.00 for each share of Series C Preferred then held by them, adjusted for any combinations, consolidations or stock distributions or dividends with respect to such shares and, in addition, an amount equal to all declared but unpaid dividends, if any, with respect to such shares. In the event the assets of the corporation are insufficient to pay the entire liquidation of the Series C Preferred, then the holders of the Series C Preferred will share ratably in such assets in proportion to the number of shares held. After payment of the full amount due the holders of Series C Preferred, the holders of the Series A Preferred and Series B Preferred shall be entitled to receive, prior to any distribution of any assets or property of the corporation to the holders of Common, an amount per share equal to \$0.24 and \$1.20, respectively, then held by them, adjusted for any combinations, consolidations or stock distributions or dividends with respect to such shares and, in addition, an amount equal to all declared but unpaid dividends, if any, with respect to such shares. In the event that the assets of the corporation are insufficient to pay the entire liquidation preference of the Series A Preferred and Series B Preferred, the holders of the Series A Preferred and Series B Preferred will share ratably in such assets in proportion to their respective per share liquidation preference and the number of shares held. After payment of the full amount due the holders of the Series A Preferred and Series B Preferred, the holders of the Common shall be entitled to receive, prior to any further distribution of any assets or property of the corporation, an amount per share equal to the quotient that results from dividing (i) \$82,000 by (ii) the total number of shares of Common outstanding at the time of such distribution (excluding shares of Common then issuable upon conversion of the Preferred). In the event that the assets of the corporation are insufficient to pay the entire liquidation preference of the Common, the holders of the Common will share ratably in such assets in proportion to their respective per share liquidation preference and the number of shares held. After payment has been made to the holders

of the Series A, Series B and Series C Preferred Stock and the holders of the Common of the full amounts to which they shall be entitled as aforesaid, any remaining assets shall be distributed ratably to the holders of the corporation's Preferred and Common, each share of Preferred being treated for such purpose as the number of shares of Common into which it could then be converted.

(b) For purposes of this Section 2, a merger or consolidation of the corporation with or into any other corporation or corporations, or the merger of any other corporation or corporations into the corporation, in which consolidation or merger the shareholders of the corporation receive distributions in cash or securities of another corporation or corporations as a result of such consolidation or merger, or a sale of all or substantially all of the assets of the corporation (a "Liquidation Event"), shall be treated as a liquidation, dissolution or winding up, unless the shareholders of this corporation hold at least 50% of the outstanding voting equity securities of the surviving corporation; provided that nothing contained in this subsection (b) shall limit the right of a holder of Preferred to convert such shares into Common prior to the effective date of any such transaction.

(c) Any securities to be delivered to the holders of the Preferred and/or Common pursuant to Section 2(b) above shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability:

(1) If traded on a securities exchange or the NASDAQ National Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the 30-day period ending three (3) days prior to the closing;

(2) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the 30-day period ending three (3) days prior to the closing; and

(3) If there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors of the corporation. The holders of more than 50% of the outstanding shares of Series C Preferred shall have the right to challenge any determination by the Board of fair market value pursuant to this Section 2(c)(i)(3), in which case the determination of fair market value shall be made by an independent appraiser selected jointly by the Board and the challenging parties, the cost of such appraisal to be borne equally by the corporation and the challenging parties.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in (i)(1), (2) or (3) to reflect the approximate fair market value thereof, as determined in good faith by the Board of Directors of the corporation.

Section 3. Redemption. The Preferred shall not be redeemable.

Section 4. Conversion. The holders of the Series A Preferred, Series B

Preferred and Series C Preferred shall have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert. Each share of Series A Preferred, Series B

Preferred and Series C Preferred shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of the corporation or any transfer agent for the Preferred, into such number of fully paid and nonassessable shares of Common as is determined by dividing \$0.24 in the case of the Series A Preferred, \$1.20 in the case of the Series B Preferred and \$8.00 in the case of the Series C Preferred, respectively, by the Conversion Price for such series, determined as hereinafter provided, in effect at the time of conversion. The price at which shares of Common shall be deliverable upon conversion of shares of Preferred (the "Conversion Price") shall initially be \$0.24 in the case of the Series A Preferred, \$1.20 in the case of the Series B Preferred, and \$8.00 in the case of the Series C Preferred, respectively, per share of Common. Such initial Conversion Price shall be subject to adjustment as hereinafter provided. Upon conversion, all declared and unpaid dividends on the Preferred shall be paid either in cash or in shares of Common, at the election of the corporation, wherein the shares of Common shall be valued at the fair market value at the time of such conversion, as determined by the Board.

(b) Automatic Conversion. Each share of Preferred shall

automatically be converted into shares of Common at the then effective Conversion Price for each such series upon (i) the closing of a firm commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "Act"), covering the offer and sale of Common for the account of the corporation to the public at an aggregate gross offering price of not less than Fifteen Million Dollars (\$15,000,000) and a price per share to the public equal to or greater than Twelve Dollars (\$12.00) if the public offering occurs within one year of the initial issuance of the Series C Preferred and Sixteen Dollars (\$16.00) if the public offering occurs at any time thereafter, as adjusted for subsequent stock splits, stock dividends and combinations, or (ii) the receipt of the corporation of the affirmative vote at a duly noticed shareholders meeting or pursuant to a duly solicited written consent of the holders of more than a majority of the Series A Preferred, a majority of the Series B Preferred and a majority of the Series C Preferred, each voting as a separate series. In the event of the automatic conversion of the Preferred upon a public offering as aforesaid, the person(s) entitled to receive the Common Stock issuable upon such conversion of Preferred shall not be deemed to have converted such Preferred until immediately prior to the closing of such sale of securities.

(c) Mechanics of Conversion. No fractional shares of Common shall be

issued upon conversion of Preferred. In lieu of any fractional shares to which the holder would otherwise be entitled, the corporation shall pay cash equal to such fraction multiplied by the then effective Conversion Price for each Series of Preferred. Before any holder of Preferred shall be entitled to convert the same into full shares of Common, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the corporation or of any transfer agent for the Preferred, and shall give written notice to the corporation at such office that he elects to convert the same. The corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred, a certificate or certificates for the number of shares of Common to which he shall be

entitled as aforesaid and a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional shares of Common. Except as set forth in Section 4(a) above, such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred to be converted, and the person or persons entitled to receive the shares of Common issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common on such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Act, the conversion may, at the option of any holder tendering Preferred for conversion, be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common issuable upon such conversion of the Preferred shall not be deemed to have converted such Preferred until immediately prior to the closing of such sale of securities.

(d) Adjustments to Conversion Price.

(i) Special Definitions. For purposes of this subsection 4(d),

the following definitions shall apply:

(A) "Option" shall mean rights, options or warrants to

subscribe for, purchase or otherwise acquire either Common or Convertible Securities.

(B) "Convertible Securities" shall mean any evidences of

indebtedness, shares or other securities convertible into or exchangeable for Common.

(C) "Additional Shares of Common" shall mean all shares of

Common issued (or, pursuant to Section 4(d)(iii), deemed to be issued) by this Corporation after the date on which the first share of Preferred was issued, other than shares of Common issued or issuable:

(1) upon conversion of shares of Preferred;

(2) as a dividend or distribution on Preferred or any event for which adjustment is made pursuant to subparagraphs 4(d)(vi), (vii) and (viii) hereof;

(3) pursuant to equipment lease financing transactions approved by the Board of Directors;

(4) shares of Common to directors and employees of, and consultants to, the corporation in a manner determined by the Board of Directors;

(5) in connection with bona fide acquisitions, strategic licensing transactions, mergers or similar transactions, the terms of which are approved by the Board of Directors; or

(6) by way of dividend or other distribution on shares of Common excluded from the definition of Additional Shares of Common by the foregoing clause(s) (A), (B), (C) (D), (E) or this clause (F).

(ii) No Adjustment of Conversion Price. No adjustment in the number

of shares of Common into which any series of Preferred is convertible shall be made, by adjustment in the Conversion Price then in effect for such series in respect of the issuance of Additional Shares of Common or otherwise, unless the consideration per share for an Additional Share of Common issued or deemed to be issued by this corporation is less than the Conversion Price of such series of Preferred in effect on the date of, and immediately prior to, the issue of such Additional Share of Common.

(iii) Deemed Issuances of Additional Shares of Common.

(A) Options and Convertible Securities. In the event the

corporation at any time or from time to time shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) of Common issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common issued as of the time of such issue or, in the case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common shall not be deemed to have been issued with respect to an adjustment of the Conversion Price unless the consideration per share (determined pursuant to subsection 4(d)(v) hereof) of such Additional Shares of Common would be less than the Conversion Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common are deemed to be issued:

(1) no further adjustment in the Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(2) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the corporation, or decrease or increase in the number of shares of Common issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(3) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto) and any subsequent adjustments based thereon shall, upon such expiration, be recomputed as if:

(a) in the case of Convertible Securities or Options for Common only the Additional Shares of Common issued were the shares of Common, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the corporation for the issue of such exercised Options plus the consideration actually received by the corporation upon such exercise or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the corporation upon such conversion or exchange, and

(b) in the case of Options for Convertible Securities only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the corporation for the Additional Shares of Common deemed to have been then issued was the consideration actually received by the corporation for the issue of such exercised Options, plus the consideration deemed to have been received by the corporation (determined pursuant to subsection 4(d)(v)) upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(4) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (i) the Conversion Price on the original adjustment date, or (ii) the Conversion Price that would have resulted from any issuance of Additional Shares of Common between the original adjustment date and such readjustment date;

(5) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Conversion Price shall be made until the expiration or exercise of all such Options issued on the same date, whereupon such adjustment shall be made in the same manner provided in clause (C) above; and

(6) if such record date shall have been fixed and such Options or Convertible Securities are not issued on the date fixed therefor, the adjustment previously made in the Conversion Price which became effective on such record date shall be canceled as of the close of business on such record date, and thereafter the Conversion Price shall be adjusted pursuant to this subsection 4(d)(iii) as of the actual date of their issuance.

(B) Stock Dividends, Stock Distributions and Subdivisions.

In the event the corporation at any time or from time to time shall declare or pay any dividend or make any other distribution on the Common payable in Common, or effect a subdivision of the outstanding shares of Common (by reclassification or otherwise than by payment of a dividend in Common), then and in any such event, Additional Shares of Common shall be deemed to have been issued:

(1) in the case of any such dividend or distribution, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend or distribution, or

(2) in the case of any such subdivision, at the close of business on the date immediately prior to the date upon which such corporate action becomes effective.

If such record date shall have been fixed and such dividend shall not have been paid on the date fixed therefor, the adjustment previously made in the Conversion Price which became effective on such record date shall be canceled as of the close of business on such record date, and thereafter the Conversion Price shall be adjusted pursuant to this subsection 4(d)(iii) as of the time of actual payment of such dividend.

(iv) Adjustment of Conversion Price Upon Issuance of Additional

Shares of Common.

(A) As to the Conversion Price of the Series C Preferred (but not the Series B Preferred), in the event the corporation shall issue, within two years of the initial issuance of Series C Preferred, Additional Shares of Common (including Additional Shares of Common deemed to be issued pursuant to subsection 4(d)(iii), but excluding Additional Shares of Common issued pursuant to subsection 4(d)(iii)(B), which event is dealt with in subsection 4(d)(vi) hereof), without consideration or for a consideration per share less than the Conversion Price of the Series C Preferred in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price of the Series C Preferred shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Conversion Price by a fraction (x) the numerator of which shall be the sum of (1) the aggregate consideration received by the corporation for the Series C Preferred, plus (2) the aggregate consideration received by the corporation for the Additional Shares of Common, and (y) the denominator of which shall be the sum of (1) the number of shares of Series C Preferred outstanding immediately prior to such issue plus (2) the number of such Additional Shares of Common so issued; provided that the Conversion Price of the Series C Preferred shall not be reduced below the Conversion Price of the Series B Preferred in effect at the time of such issuance.

(B) As to the Conversion Price of the Series B Preferred and Series C Preferred, in the event that the corporation shall issue, at any time as to the Series B Preferred and more than two years after the initial issuance of Series C Preferred as to the Series C Preferred, Additional Shares of Common (including Additional Shares of Common deemed to be issued

pursuant to subsection 4(d)(iii), but excluding Additional Shares of Common issued pursuant to subsection 4(d)(iii)(B), which event is dealt with in subsection 4(d)(vi) hereof), without consideration or for a consideration per share less than the Conversion Price of the Series B Preferred or Series C Preferred in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price of the Series B Preferred and/or Series C Preferred, as the case may be, shall be reduced, concurrently with such issue, to prices (calculated to the nearest cent) determined by multiplying each such Conversion Price by a fraction (x) the numerator of which shall be (1) the number of shares of Common outstanding immediately prior to such issue, plus (2) the number of shares of Common which the aggregate consideration received by the corporation for the total number of Additional Shares of Common so issued would purchase at that Conversion Price, and (y) the denominator of which shall be (1) the number of shares of Common outstanding immediately prior to such issue plus (2) the number of such Additional Shares of Common so issued.

For the purposes of this subsection 4(d)(iv), all shares of Common issuable upon exercise, conversion or exchange of outstanding Options or Convertible Securities, as the case may be, shall be deemed to be outstanding, and immediately after any Additional Shares of Common are deemed issued pursuant to subsection 4(d)(iii) above, such Additional Shares of Common shall be deemed to be outstanding. The Conversion Price shall not be so reduced at such time if the amount of such reduction would be an amount less than \$0.01, but any such amount shall be carried forward and reduction with respect thereto made at the time of and together with any subsequent reduction which, together with such amount and any other amount or amounts so carried forward, shall aggregate \$0.01 or more.

(v) Determination of Consideration. For purposes of this subsection

4(d), the consideration received by the corporation for the issue of any Additional Shares of Common shall be computed as follows:

(A) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(2) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common are issued together with other shares or securities or other assets of the corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board of Directors.

(B) Options and Convertible Securities. The consideration per

share received by the corporation for Additional Shares of Common deemed to have been issued

pursuant to subsection 4(d)(iii)(A), relating to Options and Convertible Securities, shall be determined by dividing

(1) the total amount, if any, received or receivable by the corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

(2) the maximum number of shares of Common (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(vi) Adjustments for Subdivisions, Combinations or Consolidation of

Common. In the event the outstanding shares of Common shall be subdivided (by

stock split or otherwise), into a greater number of shares of Common, the Conversion Price then in effect shall, concurrently with the effectiveness of such subdivision, be proportionately decreased. In the event the outstanding shares of Common shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common, the Conversion Price then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(vii) Adjustments for Other Distributions. In the event the

corporation at any time or from time to time makes, or fixes a record date for the determination of holders of Common entitled to receive any distribution payable in securities of the corporation other than shares of Common Stock and other than as otherwise adjusted in this Section 4(d), then and in each such event provision shall be made so that the holders of Preferred shall receive upon conversion thereof, in addition to the number of shares of Common receivable thereupon, the amount of securities of the corporation which they would have received had their Preferred been converted into Common on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 4 with respect to the rights of the holders of the Preferred.

(viii) Adjustments for Reorganization, Reclassification, Exchange

and Substitution. If the Common issuable upon conversion of the Preferred shall

be changed into the same or a different number of shares of any other class or classes of stock or other securities or property, whether by reorganization (unless such reorganization is deemed a liquidation under Section 2(b) hereof), reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price then in effect shall, concurrently with the effectiveness

of such reorganization or reclassification, be proportionately adjusted such that the Preferred shall be convertible into, in lieu of the number of shares of Common which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock or other securities or property equivalent to the number of shares of Common that would have been subject to receipt by the holders upon conversion of the Preferred immediately before such event; and, in any such case, appropriate adjustment shall be made in the application of the provisions herein set forth with respect to the rights and interest thereafter of the holders of the Preferred, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Preferred.

(e) No Impairment. The corporation will not, by amendment of its

Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 4 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred against impairment.

(f) Certificate as to Adjustments. Upon the occurrence of each

adjustment or readjustment of the Conversion Price pursuant to this Section 4, the corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Preferred a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The corporation shall, upon the written request at any time of any holder of Preferred, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price at the time in effect, and (iii) the number of shares of Common and the amount, if any, of other property which at the time would be received upon the conversion of Preferred.

(g) Notices of Record Date. In the event that this corporation shall

propose at any time:

(i) to declare any dividend or distribution upon its Common shares, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;

(ii) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights;

(iii) to effect any reclassification or recapitalization of its Common shares outstanding involving a change in the Common shares; or

(iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all its property or business, or to liquidate, dissolve or wind up;

then, in connection with each such event, this corporation shall send to the holders of the Preferred shares:

(A) at least 20 days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which the holders of Common shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (iii) and (iv) above; and

(B) in the case of the matters referred to in (iii) and (iv) above, at least 20 days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Common shares shall be entitled to exchange their Common shares for securities or other property deliverable upon the occurrence of such event).

Each such written notice shall be delivered personally or given by first class mail, postage prepaid, addressed to the holders of Preferred shares at the address for each such holder as shown on the books of this corporation.

Section 5. Voting Rights.

(a) Each holder of shares of Series A Preferred, Series B Preferred and Series C Preferred shall be entitled to the number of votes equal to the number of shares of Common Stock into which such Series A Preferred, Series B Preferred or Series C Preferred could then be converted (with any fractional share determined on an aggregate conversion basis being rounded to the nearest whole share), and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock (except as otherwise expressly provided herein or as required by law, voting together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote), and shall be entitled, notwithstanding any provision hereof, to notice of any shareholder's meeting in accordance with the bylaws of the corporation.

(b) The holders of Series C Preferred, voting together as a single class, shall be entitled to elect one (1) member of the corporation's board of directors. The holders of Series B Preferred, voting together as a single class, shall be entitled to elect two (2) members of the corporation's board of directors. The holders of the Common Stock (including the Series A Preferred on an as-converted basis) shall be entitled to elect the remaining members of the corporation's board of directors.

(c) In the case of any vacancy in the office of a director occurring among the directors elected by the holders of Series C Preferred, Series B Preferred or the Common Stock and Series A Preferred pursuant to 5(b) hereof, the remaining director or directors so elected by the holders of the Series C Preferred, Series B Preferred or the Common Stock and Series A Preferred may, by affirmative vote of a majority thereof (or the remaining director so elected if there is but one, or if there is no such director remaining, by the affirmative vote of the holders of a majority of shares of that class) elect a successor or successors to hold the office for the unexpired term of the director

or director whose place or places shall be vacant. Any director who shall have been elected by the holders of a majority of the Series C Preferred, Series B Preferred or the Common Stock and Series A Preferred or any director so elected as provided in the preceding sentence hereof, may be removed during the aforesaid term of office, whether with or without cause, only by the affirmative vote of the holders of a majority of the Series C Preferred, Series B Preferred or the Common Stock and Series A Preferred, as the case may be.

Section 6. Protective Provisions.

(a) So long as any shares of Preferred are outstanding, the corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding shares of Preferred, voting as a separate class:

(A) amend or repeal any provision of, or add any provision to, the corporation's Articles of Incorporation if such action would adversely alter or change the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, the Preferred;

(B) authorize or issue any new class or series of stock having any preference or priority as to dividends or assets superior to any such preference or priority of the Preferred;

(C) reclassify any shares of Common or any other shares of the corporation into shares having any preference or priority as to dividends or assets superior to any such preference or priority of the Preferred; or

(D) engage in a merger, acquisition or sale of all or substantially all of the assets of the corporation, if such merger, acquisition or sale of assets would constitute a "reorganization" as that term is defined in Section 181 of the California Corporations Code.

(b) So long as any shares of Series B Preferred are outstanding, the corporation shall not without first obtaining the approval (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding shares of Series B Preferred, voting as a separate class:

(A) liquidate or dissolve the corporation;

(B) create or issue any new class or series of stock or any other securities convertible into equity securities of the corporation (a) having preference over the Series B Preferred with respect to voting, dividends upon liquidation, or (b) having rights similar to any of the rights of the Series B Preferred under this Section 6(b);

(C) amend or repeal any provision of, or add any provision to, this corporation's Articles of Incorporation if such action would adversely alter or change the rights, preferences or privileges or powers of, or the restrictions provided for the benefit of, the Series B

Preferred; or

(D) reclassify or recapitalize any of the corporation's outstanding capital stock.

(c) So long as not less than 300,000 shares of Series C Preferred remain outstanding, the corporation shall not, without first obtaining the approval (by vote or written consent, as provided by law) of the holders of a majority of the then outstanding shares of Series C Preferred, voting as a separate class:

(A) engage in a merger, acquisition or sale of all or substantially all of the assets of the corporation, if such merger, acquisition or sale of assets would constitute a "reorganization" as that term is defined in Section 181 of the California Corporations Code;

(B) enter into any agreement that would restrict the corporation's ability to perform its obligations under the Series C Preferred Stock Purchase Agreement between the Company and the original purchasers of the Series C Preferred initially issued by the corporation, or any ancillary agreements attached as exhibits thereto; or

(C) issue additional shares of Common, other than (1) shares of Common specified pursuant to Section 4(d)(i)(C)(4) of Article IV (2) shares issued in a transaction or a series of related transactions involving the issuance of no more than 20% of the shares of Common outstanding as of December 31, 1997 (including for such purposes all shares of Common reserved for issuance upon exercise of options outstanding at December 31, 1997 in the determination of outstanding shares) or (3) shares issued pursuant to the conversion of Preferred or in connection with an event provided for in Section 4(d)(vi) of Article IV.

(d) So long as not less than 300,000 shares of Series C Preferred remain outstanding, the corporation shall not, without first obtaining the approval (by vote or written consent, as provided by law) of at least 75% of the directors constituting the Board of Directors of the corporation:

(A) sell, convey or otherwise dispose of or encumber its property or business, except for sales or dispositions in the ordinary course of business, and encumbrances securing borrowings of less than \$5 million;

(B) borrow in excess of \$5 million;

(C) materially change the corporations's business model or focus;

(D) create a non-wholly-owned subsidiary;

(E) transact business with any affiliate of the corporation on terms less favorable than the corporation could obtain from an unrelated third party; or

(F) amend or modify the corporation's bylaws.

(e) The holders of Preferred shall vote separately on matters that by law are subject to a separate class or series vote.

Section 7. Status of Converted Shares of Preferred. Any shares of

Preferred converted into shares of Common shall revert to the status of authorized and unissued shares of Preferred of the same series as the converted shares, and may thereafter, in the discretion of the Board of Directors, be sold or reissued from time to time as part of such series, subject to the terms and conditions herein set forth.

Section 8. Repurchase of Shares. In connection with repurchases by the

corporation of its Common Stock pursuant to its agreements with certain of the holders thereof providing for such repurchases in the event of the termination of the status of such holder as an employee, director or consultant to the Company, each holder of Preferred Stock shall be deemed to have consented, for purposes of Sections 502, 503 and 506 of the California General Corporation Law, to distributions made by the corporation with respect to such repurchases.

Section 9. Residual Rights. All rights accruing to the outstanding shares

of this corporation not expressly provided for to the contrary herein shall be vested in the Common.

Article V.

The Company is to have perpetual existence.

Article VI.

Elections of directors need not be by written ballot unless a stockholder demands election by written ballot at the meeting and before voting begins or unless the Bylaws of the Company shall so provide.

Article VII.

The number of directors which constitute the whole Board of Directors of the Company shall be designated in the Bylaws of the Company.

Article VIII.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Company.

Article IX.

(a) To the fullest extent permitted by the Delaware General Corporation Law as the same exists or as may hereafter be amended, a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director.

(b) The Company shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director, officer or employee of the Company or any predecessor of the Company, or serves or served at any other enterprise as a director, officer or employee at the request of the Company or any predecessor to the Company.

(c) Neither any amendment nor repeal of this Article IX, nor the adoption of any provision of the Company's Certificate of Incorporation inconsistent with this Article IX, shall eliminate or reduce the effect of this Article IX, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article IX, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Article X.

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Company may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Company.

Article XI.

Vacancies created by the resignation of one or more members of the Board of Directors and newly created directorships, created in accordance with the Bylaws of this Company, may be filled by the vote of a majority, although less than a quorum, of the directors then in office, or by a sole remaining director.

Article XII.

Advance notice of new business and stockholder nominations for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the Company.

Article XIII.

Following the effectiveness of the registration of any class of securities of the Corporation pursuant to the requirements of the Securities Exchange Act of 1934, as amended, no action shall be taken by the stockholders of the Corporation except at an annual or special meeting of the stockholders called in accordance with the Bylaws and no action shall be taken by the stockholders by written consent.

Article XIV.

Stockholders shall be entitled to cumulative voting rights in the election of directors as set forth in this Article XIV and the Bylaws of the Company, but only until cumulative voting rights are not required under Section 2115 of the California Corporations Code. Subject to such limitation, at all elections of directors of the Company, each holder of stock or of any class or classes or of a series or series thereof shall be entitled to as many votes as shall equal the number of votes which (except for this provision as to cumulative voting) such stockholder would be entitled to cast for the election of directors with respect to such stockholder's shares of stock multiplied by the number of directors to be elected, and such stockholder may cast all of such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such stockholder may see fit. At such time as cumulative voting rights are not required under Section 2115 of the California Corporations Code, this Article XIII shall no longer be effective and may be deleted herefrom upon any restatement of this Certificate of Incorporation.

Article XV.

The Company reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, the Company has caused this Certificate of Incorporation to be signed by Peter Chen, its President and Chief Executive Officer, effective July 31, 1998.

/s/ Peter Chen

Peter Chen, President and Chief Executive Officer

BYLAWS
OF
PC-TEL, INC.
a Delaware Corporation

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BYLAWS

OF
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PC-TEL, INC.

ARTICLE I

CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of the Corporation shall be 1209 Orange Street, in the City of Wilmington, County of New Castle, State of Delaware, 19801. The name of the registered agent of the Corporation at such location is The Corporation Trust Company.

1.2 OTHER OFFICES

The board of directors may at any time establish other offices at any place or places where the Corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the Corporation.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

A special meeting of the stockholders may be called at any time by the (i) board of directors, (ii) the chairman of the board, (iii) the president, or (iv) the chief executive officer.

Prior to such time as a Registration Statement regarding the sale of the Corporation's Common Stock to the public is declared effective by the Securities and Exchange Commission, a

special meeting of the stockholders may be called at any time by one or more stockholders holding a majority of the outstanding voting shares.

If a special meeting is called by any person other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of this Article II, that a meeting will be held at the time requested by the person or persons who called the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 NOTICE OF STOCKHOLDERS' MEETINGS

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.6 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS

To be properly brought before an annual meeting or special meeting, nominations for the election of director or other business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors, or (c) otherwise properly brought before the meeting by a stockholder. For such nominations or other business to be considered properly brought before the meeting by a stockholder, such stockholder must have given timely written notice and in proper form of his intent to bring such business before such meeting. To be timely, such stockholder's notice must be delivered to or mailed and received by the secretary of the Corporation not less than one hundred twenty (120) days prior to the date of the Corporation's proxy statement released to stockholders in connection with the Corporation's previous year's annual meeting of stockholders. To be in proper form, a stockholder's notice to the secretary shall set forth:

- (i) the name and address of the stockholder who intends to make the nominations, propose the business, and, as the case may be, the name and address of the

person or persons to be nominated or the nature of the business to be proposed;

- (ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or introduce the business specified in the notice;
- (iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;
- (iv) such other information regarding each nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the board of directors; and
- (v) if applicable, the consent of each nominee to serve as director of the Corporation if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

2.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting, or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or

represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provisions of the statutes or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of the question.

2.8 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Sections 2.12 and 2.14 of these Bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as may be otherwise provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

2.10 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

2.11 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Notwithstanding the following provisions of this Section 2.11, effective upon the listing of the Common Stock of the Corporation on the Nasdaq Stock Market and the registration of any class of securities of the Corporation pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the stockholders of the Corporation may not take action by written consent without a meeting but must take any such actions at a duly called annual or special meeting.

Except as otherwise provided in this Section 2.11, any action required by this chapter to be taken at any annual or special meeting of stockholders of a Corporation, or any action that may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.12 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

If the board of directors does not so fix a record date, the fixing of such record date shall be governed by the provisions of Section 213 of the General Corporation Law of Delaware.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 PROXIES

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the Corporation, but no such proxy shall be voted or acted upon after 3 years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

2.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of a Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The stock ledger shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders and of the number of shares held by each such stockholder.

2.15 CONDUCT OF BUSINESS

Meetings of stockholders shall be presided over by the chairman of the board, if any, or in his absence by the president, or in his absence by a vice president, or in the absence of the foregoing persons by a chairman designated by the board of directors, or in the absence of such designation by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and conduct of business.

ARTICLE III

DIRECTORS

3.1 POWERS

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 NUMBER

The authorized number of directors of the Corporation shall be eight (8). No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 CLASSES OF DIRECTORS

At such time as a Registration Statement regarding the sale of the Corporation's Common Stock to the public is declared effective by the Securities and Exchange Commission, the Directors shall be divided into three classes designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors. At the first annual meeting of stockholders following the closing of the Initial Public Offering, the term of office of the Class I Directors shall expire and Class I Directors shall be elected for a full term of three years. At the second annual meeting of stockholders following the closing of the Initial Public Offering, the term of office of the Class II Directors shall expire and Class II Directors shall be elected for a full term of three years. At the third annual meeting of stockholders following the closing of the Initial Public Offering, the term of office of the Class III Directors shall expire and Class III Directors shall be elected for a full term of three years. At each succeeding annual meeting of stockholders, Directors shall be elected for a full term of three years to succeed the Directors of the class whose terms expire at such annual meeting.

Notwithstanding the foregoing provisions of this Article, each Director shall serve until his successor is duly elected and qualified or until his earlier death, resignation or removal. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon written notice to the Corporation. Stockholders may remove directors with or without cause. Any vacancy occurring in the board of directors with or without cause may be filled by a majority of the remaining members of the board of directors,

although such majority is less than a quorum, or by a plurality of the votes cast at a meeting of stockholders, and each director so elected shall hold office until the expiration of the term of office of the director whom he has replaced.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

- (i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.
- (ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the Corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors of the Corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the Corporation. If the notice is mailed, it shall be deposited in the United States mail at least 4 days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telegram, it shall be delivered personally or by telephone or to the telegraph company at least 48 hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the Corporation.

3.8 QUORUM

At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation.

3.9 WAIVER OF NOTICE

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

3.10 ADJOURNED MEETING; NOTICE

If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.11 CONDUCT OF BUSINESS

Meetings of the board of directors shall be presided over by the chairman of the board, if any, or in his absence by the chief executive officer, or in their absence by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of any meeting shall determine the order of business and the procedures at the meeting.

3.12 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.13 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.14 REMOVAL OF DIRECTORS

Unless otherwise restricted by statute, by the Certificate of Incorporation or by these Bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. If at any time a class or series of shares is entitled to elect one or more directors, the provisions of this Article 3.14 shall apply to the vote of that class or series and not to the vote of the outstanding shares as a whole.

ARTICLE IV

COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in the Bylaws of the Corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, (iv) recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or (v) amend the Bylaws of the Corporation; and, unless the board resolution establishing the committee, the Bylaws or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8

(quorum), Section 3.9 (waiver of notice), Section 3.10 (adjournment and notice of adjournment), Section 3.11 (conduct of business) and 3.12 (action without a meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE V

OFFICERS

5.1 OFFICERS

The officers of the Corporation shall be a chief executive officer, one or more vice presidents, a secretary and a chief financial officer. The Corporation may also have, at the discretion of the board of directors, a chairman of the board, a president, a chief operating officer, one or more executive, senior or assistant vice presidents, assistant secretaries and any such other officers as may be appointed in accordance with the provisions of Section 5.2 of these Bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

Except as otherwise provided in this Section 5.2, the officers of the Corporation shall be appointed by the board of directors, subject to the rights, if any, of an officer under any contract of employment. The board of directors may appoint, or empower an officer to appoint, such officers and agents of the business as the Corporation may require (whether or not such officer or agent is described in this Article V), each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the board of directors may from time to time determine. Any vacancy occurring in any office of the Corporation shall be filled by the board of directors or may be filled by the officer, if any, who appointed such officer.

5.3 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors or, in the case of an officer appointed by another officer, by such other officer.

Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in

that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

5.4 CHAIRMAN OF THE BOARD

The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these Bylaws. If there is no chief executive officer, then the chairman of the board shall also be the chief executive officer of the Corporation and shall have the powers and duties prescribed in Section 5.5 of these Bylaws.

5.5 CHIEF EXECUTIVE OFFICER

The Chief Executive Officer of the Corporation shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and the officers of the Corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a Chairman of the Board at all meetings of the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer of a Corporation, including general supervision, direction and control of the business and supervision of other officers of the Corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

The Chief Executive Officer shall, without limitation, have the authority to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

5.6 PRESIDENT

Subject to such supervisory powers as may be given by these Bylaws or the Board of Directors to the Chairman of the Board or the Chief Executive Officer, if there be such officers, the president shall have general supervision, direction and control of the business and supervision of other officers of the Corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws. In the event a Chief Executive Officer shall not be appointed, the President shall have the duties of such office.

5.7 VICE PRESIDENT

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the chief executive officer and when so acting shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The vice

presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these Bylaws, the chief executive officer or the chairman of the board.

5.8 SECRETARY

The secretary shall keep or cause to be kept, at the principal executive office of the Corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the Corporation or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these Bylaws. He shall keep the seal of the Corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these Bylaws.

5.9 CHIEF FINANCIAL OFFICER

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the Corporation as may be ordered by the board of directors, shall render to the chief executive officer and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these Bylaws.

5.10 ASSISTANT SECRETARY

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors or the stockholders may from time to time prescribe.

5.11 AUTHORITY AND DUTIES OF OFFICERS

In addition to the foregoing authority and duties, all officers of the Corporation shall respectively have such authority and perform such duties in the management of the business of the Corporation as may be designated from time to time by the board of directors or the stockholders.

ARTICLE VI

INDEMNITY

6.1 THIRD PARTY ACTIONS

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by an agent of the Corporation), or is or was serving at the request of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, as a director or officer of another corporation, partnership, joint venture trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by an agent of the Corporation), or is or was serving at the request of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, as an employee or agent of another corporation, partnership, joint

venture trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

6.2 ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, or is or was serving at the request of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in manner he reasonably believed to be in or not opposed to the best interests of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, to procure a judgment in its favor by reason of the fact that he is or was an employee or agent of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, or is or was serving at the request of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in manner he reasonably believed to be in or not opposed to the best interests of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, and except that no

indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

6.3 SUCCESSFUL DEFENSE

To the extent that a director, officer, employee or agent of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 6.1 and 6.2, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

6.4 DETERMINATION OF CONDUCT

Any indemnification under Sections 6.1 and 6.2 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that the indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 6.1 and 6.2. Such determination shall be made (1) by the board of Directors or the Executive Committee by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) or if such quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

6.5 PAYMENT OF EXPENSES IN ADVANCE

Expenses incurred in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VI.

6.6 INDEMNITY NOT EXCLUSIVE

The indemnification and advancement of expenses provided or granted pursuant to the other subsections of this section shall not be deemed exclusive of any other rights or limiting any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, certificate of incorporation, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another while holding such office.

6.7 INSURANCE INDEMNIFICATION

The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, any predecessor of the Corporation, or any subsidiary of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VI.

6.8 THE CORPORATION

For purposes of this Article VI, references to "the Corporation" shall include, in addition to the resulting Corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under and subject to the provisions of this Article VI (including, without limitation the provisions of Section 6.4) with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

6.9 EMPLOYEE BENEFIT PLANS

For purposes of this Article VI, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VI.

6.10 CONTINUATION OF INDEMNIFICATION AND ADVANCEMENT OF EXPENSES

The indemnification and advanced of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VII

RECORDS AND REPORTS

7.1 MAINTENANCE AND INSPECTION OF RECORDS

The Corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in Delaware or at its principal place of business.

7.2 INSPECTION BY DIRECTORS

Any director shall have the right to examine the Corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the Corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

7.3 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairman of the board, the chief executive officer, any vice president, the chief financial officer, the secretary or assistant secretary of this Corporation, or any other person authorized by the board of directors or the chief executive officer or a vice president, is authorized to vote, represent, and exercise on behalf of this Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this Corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

ARTICLE VIII

GENERAL MATTERS

8.1 CHECKS

From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the Corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

The board of directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of a corporation shall be represented by certificates, provided that the board of directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The Corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the Corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend

on fully paid shares, the Corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 SPECIAL DESIGNATION ON CERTIFICATES

If the Corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 LOST CERTIFICATES

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Corporation and cancelled at the same time. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a Corporation and a natural person.

8.7 DIVIDENDS

The directors of the Corporation, subject to any restrictions contained in the Certificate of Incorporation, may declare and pay dividends upon the shares of its capital stock pursuant to the General Corporation Law of Delaware. Dividends may be paid in cash, in property, or in shares of the Corporation's capital stock.

The directors of the Corporation may set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the Corporation, and meeting contingencies.

8.8 FISCAL YEAR -----

The fiscal year of the Corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

8.9 SEAL ----

The Corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

8.10 TRANSFER OF STOCK -----

Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 STOCK TRANSFER AGREEMENTS -----

The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 REGISTERED STOCKHOLDERS -----

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE IX

AMENDMENTS

The original or other Bylaws of the Corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the Corporation may, in its Certificate of Incorporation, confer the power to adopt, amend or repeal Bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal Bylaws.

ARTICLE X

DISSOLUTION

If it should be deemed advisable in the judgment of the board of directors of the Corporation that the Corporation should be dissolved, the board, after the adoption of a resolution to that effect by a majority of the whole board at any meeting called for that purpose, shall cause notice to be mailed to each stockholder entitled to vote thereon of the adoption of the resolution and of a meeting of stockholders to take action upon the resolution.

At the meeting a vote shall be taken for and against the proposed dissolution. If a majority of the outstanding stock of the Corporation entitled to vote thereon votes for the proposed dissolution, then a certificate stating that the dissolution has been authorized in accordance with the provisions of Section 275 of the General Corporation Law of Delaware and setting forth the names and residences of the directors and officers shall be executed, acknowledged, and filed and shall become effective in accordance with Section 103 of the General Corporation Law of Delaware. Upon such certificate's becoming effective in accordance with Section 103 of the General Corporation Law of Delaware, the Corporation shall be dissolved.

ARTICLE XI

CUSTODIAN

11.1 APPOINTMENT OF A CUSTODIAN IN CERTAIN CASES

The Court of Chancery, upon application of any stockholder, may appoint one or more persons to be custodians and, if the Corporation is insolvent, to be receivers, of and for the Corporation when:

- (i) at any meeting held for the election of directors the stockholders are so divided that they have failed to elect successors to directors whose terms have expired or would have expired upon qualification of their successors; or

- (ii) the business of the Corporation is suffering or is threatened with irreparable injury because the directors are so divided respecting the management of the affairs of the Corporation that the required vote for action by the board of directors cannot be obtained and the stockholders are unable to terminate this division; or
- (iii) the Corporation has abandoned its business and has failed within a reasonable time to take steps to dissolve, liquidate or distribute its assets.

11.2 DUTIES OF CUSTODIAN

The custodian shall have all the powers and title of a receiver appointed under Section 291 of the General Corporation Law of Delaware, but the authority of the custodian shall be to continue the business of the Corporation and not to liquidate its affairs and distribute its assets, except when the Court of Chancery otherwise orders and except in cases arising under Sections 226(a)(3) or 352(a)(2) of the General Corporation Law of Delaware.

ARTICLE XII

LOANS TO OFFICERS

The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or of its subsidiaries, including any officer or employee who is a Director of the Corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the Corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation. Nothing in this Bylaw shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under any statute.

WARRANT
TO PURCHASE SHARES OF SERIES C PREFERRED STOCK
OF
PC-TEL, INC.
A Delaware Corporation

THIS WARRANT HAS BEEN, AND THE SHARES OF SERIES C PREFERRED STOCK WHICH MAY BE PURCHASED PURSUANT TO THE EXERCISE OF THIS WARRANT (THE "WARRANT SHARES") WILL BE, ACQUIRED SOLELY FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF. NEITHER THIS WARRANT OR THE WARRANT SHARES (TOGETHER, THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH DISPOSITION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT AND OF ANY APPLICABLE STATE SECURITIES LAWS.

Warrant No.: C-1

Issuance Date: December 31, 1998

THIS CERTIFIES THAT, for value received, Pentech Financial Services, Inc., a California corporation (the "Holder") is entitled to subscribe for a purchase from PC-Tel, Inc., a Delaware Corporation (the "Company"), 190,000 fully paid and nonassessable shares (as adjusted pursuant to Section 2 hereof) (the "Warrant Shares") of Series C Preferred Stock of the Company ("Series C Preferred Stock") at the purchase price of \$8.00 per share (as adjusted pursuant to Section 2 hereof) (the "Exercise Price"), upon the terms and subject to the conditions hereinafter set forth:

1. EXERCISE RIGHTS.

(a) Cash Exercise. The purchase rights represented by this Warrant may be

exercised by the Holder at any time and from time to time during the term hereof, in whole or in part, by delivery to the principal offices of the Company of this Warrant and a completed and duly executed Notice of Cash Exercise, in the form attached as Exhibit A hereto, accompanied by payment to the Company of

an amount equal to the Exercise Price then in effect multiplied by the number of Warrant Shares to be purchased by the Holder in connection with such cash exercise of this Warrant, which amount may be paid, at the election of the Holder, by wire transfer or delivery of a certified check payable to the order of the Company.

(b) Net Issue Exercise.

(i) In lieu of exercising the purchase rights represented by this Warrant on a cash basis pursuant to Section 1(a) hereof, the Holder may elect to exercise such rights represented

by this Warrant at any time and from time to time during the term hereof, in whole or in part, on a net-issue basis by electing to receive the number of Warrant Shares which are equal in value to the value of this Warrant (or any portion thereof to be canceled in connection with such net-issue exercise) at the time of any such net-issue exercise, by delivery to the principal offices of the Company of this Warrant and a completed and duly executed Notice of Net-Issue Exercise, in the form attached as Exhibit B hereto, properly marked to

indicate (A) the number of Warrant Shares to be delivered to the Holder in connection with such net-issue exercise, (B) the number of Warrant Shares with respect to which the Warrant is being surrendered in payment of the aggregate Exercise Price for the Warrant Shares to be delivered to the Holder in connection with such net-issue exercise, and (C) the number of Warrant Shares which remain subject to the Warrant after such net-issue exercise, if any (each as determined in accordance with Section 1(b)(ii) hereof).

(ii) In the event that the Holder shall elect to exercise the rights represented by this Warrant in whole or in part on a net-issue basis pursuant to this Section 1(b) the Company shall issue to the Holder the number of Warrant Shares determined in accordance with the following formula:

$$X = \frac{Y (A-B)}{A}$$

X = the number of Warrant Shares to be issued to the Holder in connection with such net-issue exercise.

Y = the number of Warrant Shares subject to this Warrant.

A = the Fair Market Value of one share of Series C Preferred Stock.

B = the Exercise Price in effect as of the date of such net-issue exercise (as adjusted pursuant to Section 2 hereof)

(c) Fair Market Value. For purposes of this Section 1, the "Fair

Market Value" of the Series C Preferred Stock shall have the following meanings:

(i) If the Series C Preferred Stock is not listed for trading on a national securities exchange or admitted for trading on a national market system, then the Fair Market Value of Series C Preferred Stock shall be deemed to be the fair market value of Series C Preferred Stock as determined in good faith from time to time by the Board of Directors of the Company (the "Board of Directors"), and receipt and acknowledgement of this Warrant by the Holder shall be deemed to be an acknowledgement and acceptance of any such determination of the fair market value of Series C Preferred Stock by the Board of Directors as the final and binding determination of such fair market value of purposes of this Warrant.

(ii) If the Series C Preferred Stock is listed for trading on a national securities exchange or admitted for trading on a national market system, then the Fair Market Value of Series C Preferred Stock shall be deemed to be the closing price quoted on the principal securities

exchange on which the Series C Preferred Stock is listed for trading, or if not so listed, the average of the closing bid and asked prices for Series C Preferred Stock quoted on the national market system on which Series C Preferred Stock is admitted for trading, each as published in the Western Edition of The Wall Street Journal, in each case for the ten (10) trading days prior to the date of determination of Fair Market Value for Series C Preferred Stock in accordance herewith.

(d) Additional Conditions to Exercise of Warrant. Unless there is a

registration statement declared or ordered effective by the Securities and Exchange Commission (the "Commission") under the Securities Act which includes the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant, such rights may not be exercised unless and until:

(i) the Company shall have received an Investment Representation Statement in the form attached as Exhibit C hereto, certifying that, among other

things, the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant are being acquired for investment and not with a view to any sale or distribution thereof;

(ii) each certificate evidencing the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant shall be stamped or imprinted with a legend substantially in the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144 PROMULGATED UNDER THE SECURITIES ACT. SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISTRIBUTED EXCEPT (i) PURSUANT TO A REGISTRATION STATEMENT DECLARED OR ORDERED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT COVERING SUCH SECURITIES, OR (ii) IN COMPLIANCE WITH RULE 144, OR (iii) PURSUANT TO AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF SUCH SECURITIES THAT SUCH REGISTRATION OR RULE 144 COMPLIANCE IS NOT REQUIRED UNDER THE SECURITIES ACT AS TO SUCH SALE, OFFER OF SALE, PLEDGE, HYPOTHECATION OR OTHER DISTRIBUTION. THIS CERTIFICATE MUST BE SURRENDERED TO THE ISSUER HEREOF OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE TRANSFER OF ANY INTEREST IN THE SECURITIES REPRESENTED HEREBY.

(e) Fractional Shares. Upon the exercise of the rights

represented by this Warrant, the Company shall not be obligated to issue fractional shares of Series C Preferred Stock, and in lieu thereof, the Company shall pay to the Holder an amount in cash equal to the Fair Market

Value per share of Series C Preferred Stock immediately prior to such exercise multiplied by such fraction (rounded to the nearest cent).

(f) Record Ownership of Warrant Shares. The Warrant Shares shall be

deemed to have been issued, and the person in whose name any certificate representing Warrant Shares shall be issuable upon the exercise of the rights represented by this Warrant (as indicated in the appropriate Notice of Exercise) shall be deemed to have become the holder of record of (and shall be treated for all purposes as the record holder of) the Warrant Shares represented thereby, immediately prior to the close of business on the date or dates upon which the rights represented by this Warrant are exercised in accordance with the terms hereof.

(g) Stock Certificates. In the event of any exercise of the rights

represented by this Warrant, certificates for the Warrant Shares so purchased pursuant hereto shall be delivered to the Holder within a reasonable time and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the Warrant Shares with respect to which this Warrant shall not have been exercised shall also be issued to the Holder within such time.

(h) Issue Taxes. The issuance of certificates for shares of Series C

Preferred Stock upon the exercise of the rights represented by this Warrant shall be made without charge to the Holder for any issuance tax in respect thereof, provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Holder of the Warrant.

2. ADJUSTMENT RIGHTS.

(a) Right to Adjustment. The number of Warrant Shares purchasable upon

the exercise of the rights represented by this Warrant, and the Exercise Price therefor, shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(i) Reclassifications. In the event of a reclassification of the

Series C Preferred Stock other than by stock split, subdivision, consolidation or combination thereof, the Company shall execute a new Warrant, the terms of which provide that the holder of this Warrant shall have the right to exercise the rights represented by such new Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such reclassification by a holder of an equivalent number of shares of Series C Preferred Stock. Such new Warrant shall provide for adjustments which are as equivalent as practicable to the adjustments provided for in this Section 2. The provisions of this Section 2(a)(i) shall apply with equal force and effect to all successive reclassifications of the Series C Preferred Stock.

(ii) Stock Splits, Dividends, Combinations and Consolidations. In

the event of a stock split, stock dividend or subdivision of or in respect of the outstanding shares of Series C Preferred Stock, the number of Warrant Shares issuable upon the exercise of the rights represented by this Warrant immediately prior to such stock split, stock dividend or subdivision shall be proportionately increased and the Exercise Price then in effect shall be proportionately decreased, effective at the close of business on the date of such stock split, stock dividend or subdivision, as the

case may be. In the event of a reverse stock split, consolidation, combination or other similar event of or in respect of the outstanding shares of Series C Preferred Stock, the number of Warrant Shares issuable upon the exercise of the rights represented by this Warrant immediately prior to such reverse stock split, consolidation, combination or other similar event shall be proportionately decreased and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such reverse stock split, consolidation, combination or other similar event, as the case may be.

(iii) Mergers and Consolidations; Sales of Assets or Stock. In

the event of a merger or consolidation of the Company with or into another corporation, limited liability company, general or limited partnership, joint venture, association or other legal entity (other than (A) a merger or consolidation pursuant to which the Company is the surviving corporation and the shareholders of the Company immediately preceding such merger or consolidation continue to own at least fifty percent (50%) of the capital stock of the Company entitled to vote following the closing of such merger or consolidation and which does not result in any reclassification of the Warrant Shares issuable upon the exercise of the rights represented by this Warrant, or (B) the sale of all or substantially all of the assets or capital stock of the Company, the Company, or any successor corporation or other legal entity, as the case may be, shall execute a new Warrant, the terms of which provide that the holder of this Warrant shall have the right to exercise the rights represented by such new Warrant, and procure upon such exercise and payment of the same aggregate Exercise Price then in effect, in lieu of the shares of Series C Preferred Stock theretofore issuable upon exercise of the rights represented by this Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such merger, consolidation or sale of assets or capital stock by a holder of an equivalent number of shares of Series C Preferred Stock. Such new Warrant shall provide for adjustments which are as equivalent as practicable to the adjustments provided for in this Section 2. The provisions of this Section 2(a)(iii) shall apply with equal force and effect to all successive mergers, consolidations and sales of assets and capital stock of the Series C Preferred Stock.

(b) Adjustment Notices. Upon any adjustment of the Exercise Price, and

any increase or decrease in the number of Warrant Shares subject to this Warrant, in accordance with this Section 2, the Company, within sixty (60) days thereafter, shall give written notice thereof to the Holder at the address of such Holder as shown on the books of the Company, which notice shall state the Exercise price as adjusted and, if applicable, the increased or decreased number of Warrant Shares subject to this Warrant, setting forth in reasonable detail the method of calculation of each such adjustment.

3. TRANSFER OF WARRANT.

(a) This Warrant and the rights represented hereby are not transferable, except in accordance with the conditions set forth in Section 3. In order to effect any transfer of all or a portion of this Warrant or the Warrant Shares, the Holder hereof shall deliver to the Company a completed and duly executed Notice of Transfer, in the form attached as Exhibit D hereto.

(b) Additional Conditions to Transfer of Warrant. Unless there is a

registration statement declared or ordered effective by the commission under the Securities Act which includes this Warrant, the Warrant may not be transferred unless and until:

(i) the Company shall have received an Investment Representation Statement, in the form attached as Exhibit E hereto, certifying that, among

other things, this Warrant is being acquired for investment and not with a view to any sale or distribution thereof, and

(ii) the Company shall have received a written notice from the Holder which describes the manner and circumstances of the proposed transfer accompanied by a written opinion of Holder's legal counsel, in form and substance reasonably satisfactory to the Company, stating that such transfer is exempt from the registration and prospectus delivery requirements of the Securities Act and all applicable state securities laws.

4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby

represents and warrants to the Holder as follows:

(a) This Warrant has been duly authorized and validly executed and delivered by the Company and constitutes a valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms.

(b) The Warrant Shares have been duly and validly authorized and reserved for issuance by the Company upon the exercise of the rights represented by this Warrant and, when issued upon the exercise of such rights in accordance with the terms and conditions hereof, the Warrant Shares will be (A) duly authorized and validly issued, fully paid and nonassessable shares of Series C Preferred Stock, (B) free from all preemptive rights, rights of first refusal or first offer, taxes, liens, charges or other encumbrances with respect to the issuance thereof by the Company, and (C) free of any restrictions on the transfer thereof other than restrictions on transfer under applicable federal and state securities laws. At all times during the term hereof, the Company shall have authorized and reserved for issuance a sufficient number of shares of Series C Preferred Stock to provide for the exercise of the rights represented by this Warrant.

(c) The due execution and delivery of this Warrant are not, and the issuance of the Warrant Shares upon the exercise of the rights represented by this Warrant in accordance with the terms hereof will not, conflict with the Articles of Incorporation or Bylaws of the Company, each as amended to the date of issuance hereof.

5. REPRESENTATION AND WARRANTIES OF THE HOLDER. The Holder hereby

represents and warrants to the Company as follows:

(a) This Warrant is being acquired for such Holder's own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act. Upon the exercise of the rights represented by this Warrant, the Holder shall, if so requested by the Company, confirm in writing, in a form reasonably

satisfactory to the Company, that the Warrant Shares issuable upon the exercise of such rights are being acquired for investment and not with a view toward distribution or resale thereof.

(b) The Holder understands that the Warrant and the Warrant Shares have not been registered under the Securities Act by reason of their issuance in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) thereof, and that such Warrant and the Warrant Shares, as the case may be, must be held by the Holder indefinitely, and therefore, that the Holder must bear the economic risk of such investment, unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration requirements. The Holder further understands that the Warrant Shares have not been qualified under the California Securities Law of 1968 (the "California Law") by reason of their issuance in a transaction exempt from the qualification requirements of the California Law pursuant to Section 25102(f) thereof, which exemption depends upon, among other things, the bona fide nature of such Holder's investment intent expressed herein.

(c) The Holder has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the purchase of this Warrant and the Warrant Shares and of protecting its interests in connection therewith.

(d) The Holder is able to bear the economic risk of the purchase of the Warrant Shares pursuant to the terms of this Warrant.

6. NO SHAREHOLDER RIGHTS. The Holder of this Warrant (and any transferee

hereof) shall not be entitled to vote on matters submitted for the approval or consent of the shareholders of the Company or to receive dividends declared on or in respect of shares of Series C Preferred Stock, or otherwise be deemed to be the holder of Series C Preferred Stock or any other capital stock or other securities of the Company which may at any time be issuable upon the exercise of the rights represented hereby for any purpose, nor shall anything contained herein be construed to confer upon the Holder (or any transferee hereof) any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted for the approval or consent of the shareholders, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, merger or consolidation, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Warrant Shares issuable upon the exercise of the rights represented hereby shall have become deliverable as provided herein.

7. INVESTOR RIGHTS. Subject to the requisite approval from the holders of

Series B Preferred Stock and the Series C Preferred Stock, the Company agrees to grant the Holder those rights as set forth in the Amended and Restated Rights Agreement, dated December 31, 1997.

8. EXPIRATION OF WARRANT. This Warrant shall expire, and the rights

represented hereby may no longer be exercised on the close of business on the tenth anniversary of the date of issuance hereof.

9. LOCK-UP AGREEMENT. The Holder hereby agrees that, upon request of the

Company or the managing underwriter of a public offering of any securities of the Company, such Holder shall not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of all or any portion of the Warrant Shares without the prior written consent of the Company or the managing underwriter, as the case may be, for such period of time (not to exceed one hundred eighty (180) days from the date upon which the registration statement relating to such public offering is declared or ordered effective by the Securities and Exchange Commission) as may be requested by the Company or the underwriters, as the case may be.

10. MISCELLANEOUS.

(a) Governing Law. This Warrant is being delivered in the State of

California, and shall be construed and enforced in accordance with and governed by the laws of such State. The parties expressly stipulate that any litigation under this Warrant shall be brought in the State courts of the County of Santa Clara, California, and in the United States District Court for the Northern District of California. The parties agree to submit to the jurisdiction and venue of such courts.

(b) Notice Procedures. Any written notice by the Company required

hereunder shall be made by hand delivery or first class mail, postage prepaid, address to the Holder at the address set forth on the books of the Company.

(c) Successors and Assigns. The terms of this Warrant shall be binding

upon and shall inure to the benefit of any successors or assigns of the Company and of the Holder or Holders of this Warrant and the Warrant Shares issued or issuable upon the exercise of the rights represented by this Warrant.

(d) Entire Agreement. This Warrant constitutes the full and entire

understanding and agreement between the parties with respect to the subject matter hereof and supersedes in their entirety any prior or contemporaneous agreements by and between the Company and the Holder with respect to such matters.

(e) Further Assurances: No Impairment. The Company shall not, by

amendment of its Articles of Incorporation or through any other means, directly or indirectly, avoid or seek to avoid the observance or performance of any of the terms of this Warrant and shall at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment. The Company shall at no time close its transfer books against the transfer of this Warrant or of any Warrant Shares issued or issuable upon the exercise of the rights represented by this Warrant in any manner which interferes with a timely exercise of such rights. The Company shall not, by any action, seek to avoid the observance or performance of any of the terms of this Warrant, but shall at all times in good faith seek to carry out all such terms and take all such actions as may be necessary or appropriate in order to protect the rights of the Holder under this Warrant against impairment.

(f) Lost Warrant. Upon receipt of evidence reasonably satisfactory to

the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Company at the Holder's expense shall execute and deliver to the Holder, in lieu thereof, a new Warrant of like date and tenor.

(g) Amendments. This Warrant and any provision hereof may be amended,

waived or terminated (either generally or in a particular instance, retroactively or prospectively and for a specified period of time or indefinitely) only by a written instrument signed by the Company and the Holder, or, in the event of any partial transfer of the rights represented by this Warrant, the Holders of rights to purchase more than fifty percent (50%) of the Warrant Shares issuable upon exercise of the rights represented by this Warrant, and with the same consent the Company may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant or the Warrants, as the case may be, provided, however, that no such amendment, waiver, termination or supplemental agreement shall reduce the aforesaid percentage which is required for consent to any amendment, waiver, termination or supplemental agreement without the consent of all of the Holders of the rights represented by this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

Issued this 31st day of December, 1998

PC-TEL, INC.,
a Delaware corporation

By: /s/ Peter Chen

Name: Peter Chen

Title: President & CEO

By:

Name:

Title:

Acknowledged and Accepted:

PENTECH FINANCIAL SERVICES, INC.
A California corporation

By: /s/ Benjamin E. Millerbis

Name: Benjamin E. Millerbis

Title: President

Date:

EXHIBIT A

NOTICE OF CASH EXERCISE

To: PC-TEL, Inc.
70 Rio Robles
San Jose, CA 95134

1. The undersigned hereby elects to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), pursuant to the terms of Warrant No. _____, issued on _____, 199__, to and in the name of Pentech Financial Services, Inc., a copy of which is attached hereto (the "Warrant"), and tenders herewith full payment of the aggregate Exercise Price for such shares in accordance with the terms of the Warrant.

2. Please issue a certificate or certificates representing said shares of Series C Preferred Stock in such name or names as specified below:

Pentech Financial Services, Inc.
a California corporation
310 West Hamilton Avenue, Suite 202
Campbell, CA 95008

3. The undersigned hereby represents and warrants that the aforesaid shares of Series C Preferred Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares and all representations and warranties of the undersigned set forth in attached Warrant are true and correct as of the date hereof. In support thereof, the undersigned has executed an Investment Representation Statement, in the form attached as Exhibit C to the Warrant, concurrently herewith.

Pentech Financial Services, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT B

NOTICE OF NET-ISSUE EXERCISE

To: PC-TEL, Inc.
70 Rio Robles
San Jose, CA 95134

1. The undersigned hereby elects to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), on a net-issue basis pursuant to the terms of Warrant No. _____, issued on _____, 199__, to _____ and in the name of Pentech Financial Services, Inc., a copy of which is attached hereto (the "Warrant").

2. Net-Issue Information:

(a) Number of Shares of Series C Preferred Stock to be Delivered: _____

(b) Number of Shares of Series C Preferred Stock Surrendered: _____

(c) Number of Shares Remaining Subject to Warrant: _____

3. Please issue a certificate or certificates representing said shares of Series C Preferred Stock in such name or names as specified below:

Pentech Financial Services, Inc.
310 West Hamilton Avenue, Suite 202
Campbell, CA 95008

4. The undersigned hereby represents and warrants that the aforesaid shares of Series C Preferred Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares and all representations and warranties of the undersigned set forth in attached Warrant are true and correct as of the date hereof. In support thereof, the undersigned has executed an Investment Representation Statement, in the form attached as Exhibit C to the Warrant, concurrently herewith.

Pentech Financial Services, Inc.,
a California corporation

By: _____
Name: _____
Title: _____
Date: _____

Date: _____

EXHIBIT C

INVESTMENT REPRESENTATION STATEMENT

PURCHASER: Pentech Financial Services, Inc.

SELLER: PC-TEL, Inc.

COMPANY: PC-TEL, Inc.

SECURITY: Series C Preferred Stock Issued Upon The Exercise Of Warrant
No. _____ Issued On _____, 199__.

AMOUNT: _____ SHARES

DATE: _____

The undersigned hereby represent and warrants to PC-TEL, Inc., a Delaware corporation (the "Company"), as follows:

1. I am aware of the business affairs, financial condition and results of operations of the Company and have acquired sufficient information about the Company to reach an informed and knowledgeable investment decision to acquire the Securities. I am purchasing the Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

2. I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. I understand that, in the view of the Securities and Exchange Commission (the "Commission"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold the Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

3. I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

4. I am familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or

indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions.

5. I further understand that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Pentech Financial Services, Inc.

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT D

NOTICE OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by Warrant No. _____, issued on _____, 199__, to and in the name of _____, to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), a copy of which is attached hereto (the "Warrant"), and appoints _____ as attorney-in-fact to transfer such right on the books of the Company with full power of substitution in the premises.

Dated: _____ Pentech Financial Services, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

(Signature must conform in all respects to
name of the Holder as set forth on the face
of the Warrant)

310 West Hamilton Avenue, Suite 202
Campbell, CA 95008

Signed in the presence of:

- -----

EXHIBIT E

INVESTMENT REPRESENTATION STATEMENT

PURCHASER: Pentech Financial Services, Inc., a California corporation

TRANSFEROR:

COMPANY: PC-TEL, Inc.

SECURITY: WARRANT NO. _____, ISSUED ON _____, 199 .

AMOUNT: _____ SHARES

DATE: _____

The undersigned hereby represent and warrants to PC-TEL, Inc., a Delaware corporation (the "Company"), as follows:

1. I am aware of the business affairs, financial condition and results of operations of the Company and have acquired sufficient information about the Company to reach an informed and knowledgeable investment decision to acquire the Securities. I am purchasing the Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

2. I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. I understand that, in the view of the Securities and Exchange Commission (the "Commission"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold the Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

3. I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

4. I am familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions.

5. I further understand that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other

registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: _____ Pentech Financial Services, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

Date: _____

WARRANT
TO PURCHASE SHARES OF SERIES C PREFERRED STOCK
OF
PC-TEL, INC.
A Delaware Corporation

THIS WARRANT HAS BEEN, AND THE SHARES OF SERIES C PREFERRED STOCK WHICH MAY BE PURCHASED PURSUANT TO THE EXERCISE OF THIS WARRANT (THE "WARRANT SHARES") WILL BE, ACQUIRED SOLELY FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF. NEITHER THIS WARRANT OR THE WARRANT SHARES (TOGETHER, THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH DISPOSITION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE SECURITIES ACT AND OF ANY APPLICABLE STATE SECURITIES LAWS.

Warrant No.: C-2

Issuance Date: December 31, 1998

THIS CERTIFIES THAT, for value received, PFF Bank and Trust, Inc., a California corporation (the "Holder") is entitled to subscribe for a purchase from PC-Tel, Inc., a Delaware Corporation (the "Company"), 10,000 fully paid and nonassessable shares (as adjusted pursuant to Section 2 hereof) (the "Warrant Shares") of Series C Preferred Stock of the Company ("Series C Preferred Stock") at the purchase price of \$8.00 per share (as adjusted pursuant to Section 2 hereof) (the "Exercise Price"), upon the terms and subject to the conditions hereinafter set forth:

1. EXERCISE RIGHTS.

(a) Cash Exercise. The purchase rights represented by this Warrant

may be exercised by the Holder at any time and from time to time during the term hereof, in whole or in part, by delivery to the principal offices of the Company of this Warrant and a completed and duly executed Notice of Cash Exercise, in the form attached as Exhibit A hereto, accompanied by payment to the Company of

an amount equal to the Exercise Price then in effect multiplied by the number of Warrant Shares to be purchased by the Holder in connection with such cash exercise of this Warrant, which amount may be paid, at the election of the Holder, by wire transfer or delivery of a certified check payable to the order of the Company.

(b) Net Issue Exercise.

(i) In lieu of exercising the purchase rights represented by this Warrant on a cash basis pursuant to Section 1(a) hereof, the Holder may elect to exercise such rights represented

by this Warrant at any time and from time to time during the term hereof, in whole or in part, on a net-issue basis by electing to receive the number of Warrant Shares which are equal in value to the value of this Warrant (or any portion thereof to be canceled in connection with such net-issue exercise) at the time of any such net-issue exercise, by delivery to the principal offices of the Company of this Warrant and a completed and duly executed Notice of Net-Issue Exercise, in the form attached as Exhibit B hereto, properly marked to

indicate (A) the number of Warrant Shares to be delivered to the Holder in connection with such net-issue exercise, (B) the number of Warrant Shares with respect to which the Warrant is being surrendered in payment of the aggregate Exercise Price for the Warrant Shares to be delivered to the Holder in connection with such net-issue exercise, and (C) the number of Warrant Shares which remain subject to the Warrant after such net-issue exercise, if any (each as determined in accordance with Section 1(b)(ii) hereof).

(ii) In the event that the Holder shall elect to exercise the rights represented by this Warrant in whole or in part on a net-issue basis pursuant to this Section 1(b) the Company shall issue to the Holder the number of Warrant Shares determined in accordance with the following formula:

$$X = Y (A-B)$$

A

X = the number of Warrant Shares to be issued to the Holder in connection with such net-issue exercise.

Y = the number of Warrant Shares subject to this Warrant.

A = the Fair Market Value of one share of Series C Preferred Stock.

B = the Exercise Price in effect as of the date of such net-issue exercise (as adjusted pursuant to Section 2 hereof)

(c) Fair Market Value. For purposes of this Section 1, the "Fair

Market Value" of the Series C Preferred Stock shall have the following meanings:

(i) If the Series C Preferred Stock is not listed for trading on a national securities exchange or admitted for trading on a national market system, then the Fair Market Value of Series C Preferred Stock shall be deemed to be the fair market value of Series C Preferred Stock as determined in good faith from time to time by the Board of Directors of the Company (the "Board of Directors"), and receipt and acknowledgement of this Warrant by the Holder shall be deemed to be an acknowledgement and acceptance of any such determination of the fair market value of Series C Preferred Stock by the Board of Directors as the final and binding determination of such fair market value of purposes of this Warrant.

(ii) If the Series C Preferred Stock is listed for trading on a national securities exchange or admitted for trading on a national market system, then the Fair Market Value of Series C Preferred Stock shall be deemed to be the closing price quoted on the principal securities

exchange on which the Series C Preferred Stock is listed for trading, or if not so listed, the average of the closing bid and asked prices for Series C Preferred Stock quoted on the national market system on which Series C Preferred Stock is admitted for trading, each as published in the Western Edition of The Wall Street Journal, in each case for the ten (10) trading days prior to the date of determination of Fair Market Value for Series C Preferred Stock in accordance herewith.

(d) Additional Conditions to Exercise of Warrant. Unless there is a

registration statement declared or ordered effective by the Securities and Exchange Commission (the "Commission") under the Securities Act which includes the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant, such rights may not be exercised unless and until:

(i) the Company shall have received an Investment

Representation Statement in the form attached as Exhibit C hereto, certifying

that, among other things, the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant are being acquired for investment and not with a view to any sale or distribution thereof;

(ii) each certificate evidencing the Warrant Shares to be issued upon the exercise of the rights represented by this Warrant shall be stamped or imprinted with a legend substantially in the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144 PROMULGATED UNDER THE SECURITIES ACT. SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISTRIBUTED EXCEPT (i) PURSUANT TO A REGISTRATION STATEMENT DECLARED OR ORDERED EFFECTIVE BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT COVERING SUCH SECURITIES, OR (ii) IN COMPLIANCE WITH RULE 144, OR (iii) PURSUANT TO AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF SUCH SECURITIES THAT SUCH REGISTRATION OR RULE 144 COMPLIANCE IS NOT REQUIRED UNDER THE SECURITIES ACT AS TO SUCH SALE, OFFER OF SALE, PLEDGE, HYPOTHECATION OR OTHER DISTRIBUTION. THIS CERTIFICATE MUST BE SURRENDERED TO THE ISSUER HEREOF OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE TRANSFER OF ANY INTEREST IN THE SECURITIES REPRESENTED HEREBY.

(e) Fractional Shares. Upon the exercise of the rights represented by

this Warrant, the Company shall not be obligated to issue fractional shares of Series C Preferred Stock, and in lieu thereof, the Company shall pay to the Holder an amount in cash equal to the Fair Market

Value per share of Series C Preferred Stock immediately prior to such exercise multiplied by such fraction (rounded to the nearest cent).

(f) Record Ownership of Warrant Shares. The Warrant Shares shall be

deemed to have been issued, and the person in whose name any certificate representing Warrant Shares shall be issuable upon the exercise of the rights represented by this Warrant (as indicated in the appropriate Notice of Exercise) shall be deemed to have become the holder of record of (and shall be treated for all purposes as the record holder of) the Warrant Shares represented thereby, immediately prior to the close of business on the date or dates upon which the rights represented by this Warrant are exercised in accordance with the terms hereof.

(g) Stock Certificates. In the event of any exercise of the rights

represented by this Warrant, certificates for the Warrant Shares so purchased pursuant hereto shall be delivered to the Holder within a reasonable time and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the Warrant Shares with respect to which this Warrant shall not have been exercised shall also be issued to the Holder within such time.

(h) Issue Taxes. The issuance of certificates for shares of Series C

Preferred Stock upon the exercise of the rights represented by this Warrant shall be made without charge to the Holder for any issuance tax in respect thereof, provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the Holder of the Warrant.

2. ADJUSTMENT RIGHTS.

(a) Right to Adjustment. The number of Warrant Shares purchasable

upon the exercise of the rights represented by this Warrant, and the Exercise Price therefor, shall be subject to adjustment from time to time upon the occurrence of certain events, as follows:

(i) Reclassifications. In the event of a reclassification of

the Series C Preferred Stock other than by stock split, subdivision, consolidation or combination thereof, the Company shall execute a new Warrant, the terms of which provide that the holder of this Warrant shall have the right to exercise the rights represented by such new Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such reclassification by a holder of an equivalent number of shares of Series C Preferred Stock. Such new Warrant shall provide for adjustments which are as equivalent as practicable to the adjustments provided for in this Section 2. The provisions of this Section 2(a)(i) shall apply with equal force and effect to all successive reclassifications of the Series C Preferred Stock.

(ii) Stock Splits, Dividends, Combinations and Consolidations.

In the event of a stock split, stock dividend or subdivision of or in respect of the outstanding shares of Series C Preferred Stock, the number of Warrant Shares issuable upon the exercise of the rights represented by this Warrant immediately prior to such stock split, stock dividend or subdivision shall be proportionately increased and the Exercise Price then in effect shall be proportionately decreased, effective at the close of business on the date of such stock split, stock dividend or subdivision, as the

case may be. In the event of a reverse stock split, consolidation, combination or other similar event of or in respect of the outstanding shares of Series C Preferred Stock, the number of Warrant Shares issuable upon the exercise of the rights represented by this Warrant immediately prior to such reverse stock split, consolidation, combination or other similar event shall be proportionately decreased and the Exercise Price shall be proportionately increased, effective at the close of business on the date of such reverse stock split, consolidation, combination or other similar event, as the case may be.

(iii) Mergers and Consolidations; Sales of Assets or Stock. In

the event of a merger or consolidation of the Company with or into another corporation, limited liability company, general or limited partnership, joint venture, association or other legal entity (other than (A) a merger or consolidation pursuant to which the Company is the surviving corporation and the shareholders of the Company immediately preceding such merger or consolidation continue to own at least fifty percent (50%) of the capital stock of the Company entitled to vote following the closing of such merger or consolidation and which does not result in any reclassification of the Warrant Shares issuable upon the exercise of the rights represented by this Warrant, or (B) the sale of all or substantially all of the assets or capital stock of the Company, the Company, or any successor corporation or other legal entity, as the case may be, shall execute a new Warrant, the terms of which provide that the holder of this Warrant shall have the right to exercise the rights represented by such new Warrant, and procure upon such exercise and payment of the same aggregate Exercise Price then in effect, in lieu of the shares of Series C Preferred Stock theretofore issuable upon exercise of the rights represented by this Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such merger, consolidation or sale of assets or capital stock by a holder of an equivalent number of shares of Series C Preferred Stock. Such new Warrant shall provide for adjustments which are as equivalent as practicable to the adjustments provided for in this Section 2. The provisions of this Section 2(a)(iii) shall apply with equal force and effect to all successive mergers, consolidations and sales of assets and capital stock of the Series C Preferred Stock.

(b) Adjustment Notices. Upon any adjustment of the Exercise Price,

and any increase or decrease in the number of Warrant Shares subject to this Warrant, in accordance with this Section 2, the Company, within sixty (60) days thereafter, shall give written notice thereof to the Holder at the address of such Holder as shown on the books of the Company, which notice shall state the Exercise price as adjusted and, if applicable, the increased or decreased number of Warrant Shares subject to this Warrant, setting forth in reasonable detail the method of calculation of each such adjustment.

3. TRANSFER OF WARRANT.

(a) This Warrant and the rights represented hereby are not transferable, except accordance with the conditions set forth in Section 3. In order to effect any transfer of all or a portion of this Warrant or the Warrant Shares, the Holder hereof shall deliver to the Company a completed and duly executed Notice of Transfer, in the form attached as Exhibit D hereto.

(b) Additional Conditions to Transfer of Warrant. Unless there is a

registration statement declared or ordered effective by the commission under the
Securities Act which includes this Warrant, the Warrant may not be transferred
unless and until:

(i) the Company shall have received an Investment
Representation Statement, in the form attached as Exhibit E hereto, certifying

that, among other things, this Warrant is being acquired for investment and not
with a view to any sale or distribution thereof, and

(ii) the Company shall have received a written notice from the
Holder which describes the manner and circumstances of the proposed transfer
accompanied by a written opinion of Holder's legal counsel, in form and
substance reasonably satisfactory to the Company, stating that such transfer is
exempt from the registration and prospectus delivery requirements of the
Securities Act and all applicable state securities laws.

4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby

represents and warrants to the Holder as follows:

(a) This Warrant has been duly authorized and validly executed and
delivered by the Company and constitutes a valid and legally binding obligation
of the Company enforceable against the Company in accordance with its terms.

(b) The Warrant Shares have been duly and validly authorized and
reserved for issuance by the Company upon the exercise of the rights represented
by this Warrant and, when issued upon the exercise of such rights in accordance
with the terms and conditions hereof, the Warrant Shares will be (A) duly
authorized and validly issued, fully paid and nonassessable shares of Series C
Preferred Stock, (B) free from all preemptive rights, rights of first refusal or
first offer, taxes, liens, charges or other encumbrances with respect to the
issuance thereof by the Company, and (C) free of any restrictions on the
transfer thereof other than restrictions on transfer under applicable federal
and state securities laws. At all times during the term hereof, the Company
shall have authorized and reserved for issuance a sufficient number of shares of
Series C Preferred Stock to provide for the exercise of the rights represented
by this Warrant.

(c) The due execution and delivery of this Warrant are not, and the
issuance of the Warrant Shares upon the exercise of the rights represented by
this Warrant in accordance with the terms hereof will not, conflict with the
Articles of Incorporation or Bylaws of the Company, each as amended to the date
of issuance hereof.

5. REPRESENTATION AND WARRANTIES OF THE HOLDER. The Holder hereby

represents and warrants to the Company as follows:

(a) This Warrant is being acquired for such Holder's own account, for
investment and not with a view to, or for resale in connection with, any
distribution or public offering thereof within the meaning of the Securities
Act. Upon the exercise of the rights represented by this Warrant, the Holder
shall, if so requested by the Company, confirm in writing, in a form reasonably

satisfactory to the Company, that the Warrant Shares issuable upon the exercise of such rights are being acquired for investment and not with a view toward distribution or resale thereof.

(b) The Holder understands that the Warrant and the Warrant Shares have not been registered under the Securities Act by reason of their issuance in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) thereof, and that such Warrant and the Warrant Shares, as the case may be, must be held by the Holder indefinitely, and therefore, that the Holder must bear the economic risk of such investment, unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration requirements. The Holder further understands that the Warrant Shares have not been qualified under the California Securities Law of 1968 (the "California Law") by reason of their issuance in a transaction exempt from the qualification requirements of the California Law pursuant to Section 25102(f) thereof, which exemption depends upon, among other things, the bona fide nature of such Holder's investment intent expressed herein.

(c) The Holder has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the purchase of this Warrant and the Warrant Shares and of protecting its interests in connection therewith.

(d) The Holder is able to bear the economic risk of the purchase of the Warrant Shares pursuant to the terms of this Warrant.

6. NO SHAREHOLDER RIGHTS. The Holder of this Warrant (and any transferee

hereof) shall not be entitled to vote on matters submitted for the approval or consent of the shareholders of the Company or to receive dividends declared on or in respect of shares of Series C Preferred Stock, or otherwise be deemed to be the holder of Series C Preferred Stock or any other capital stock or other securities of the Company which may at any time be issuable upon the exercise of the rights represented hereby for any purpose, nor shall anything contained herein be construed to confer upon the Holder (or any transferee hereof) any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted for the approval or consent of the shareholders, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, merger or consolidation, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Warrant Shares issuable upon the exercise of the rights represented hereby shall have become deliverable as provided herein.

7. INVESTOR RIGHTS. Subject to the requisite approval from the holders of

Series B Preferred Stock and the Series C Preferred Stock, the Company agrees to grant the Holder those rights as set forth in the Amended and Restated Rights Agreement, dated December 31, 1997.

8. EXPIRATION OF WARRANT. This Warrant shall expire, and the rights

represented hereby may no longer be exercised on the close of business on the tenth anniversary of the date of issuance hereof.

9. LOCK-UP AGREEMENT. The Holder hereby agrees that, upon request of the

Company or the managing underwriter of a public offering of any securities of the Company, such Holder shall not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of all or any portion of the Warrant Shares without the prior written consent of the Company or the managing underwriter, as the case may be, for such period of time (not to exceed one hundred eighty (180) days from the date upon which the registration statement relating to such public offering is declared or ordered effective by the Securities and Exchange Commission) as may be requested by the Company or the underwriters, as the case may be.

10. MISCELLANEOUS.

(a) Governing Law. This Warrant is being delivered in the State of

California, and shall be construed and enforced in accordance with and governed by the laws of such State. The parties expressly stipulate that any litigation under this Warrant shall be brought in the State courts of the County of Santa Clara, California, and in the United States District Court for the Northern District of California. The parties agree to submit to the jurisdiction and venue of such courts.

(b) Notice Procedures. Any written notice by the Company required

hereunder shall be made by hand delivery or first class mail, postage prepaid, address to the Holder at the address set forth on the books of the Company.

(c) Successors and Assigns. The terms of this Warrant shall be

binding upon and shall inure to the benefit of any successors or assigns of the Company and of the Holder or Holders of this Warrant and the Warrant Shares issued or issuable upon the exercise of the rights represented by this Warrant.

(d) Entire Agreement. This Warrant constitutes the full and entire

understanding and agreement between the parties with respect to the subject matter hereof and supersedes in their entirety any prior or contemporaneous agreements by and between the Company and the Holder with respect to such matters.

(e) Further Assurances: No Impairment. The Company shall not, by

amendment of its Articles of Incorporation or through any other means, directly or indirectly, avoid or seek to avoid the observance or performance of any of the terms of this Warrant and shall at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment. The Company shall at no time close its transfer books against the transfer of this Warrant or of any Warrant Shares issued or issuable upon the exercise of the rights represented by this Warrant in any manner which interferes with a timely exercise of such rights. The Company shall not, by any action, seek to avoid the observance or performance of any of the terms of this Warrant, but shall at all times in good faith seek to carry out all such terms and take all such actions as may be necessary or appropriate in order to protect the rights of the Holder under this Warrant against impairment.

(f) Lost Warrant. Upon receipt of evidence reasonably satisfactory to

the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Company at the Holder's expense shall execute and deliver to the Holder, in lieu thereof, a new Warrant of like date and tenor.

(g) Amendments. This Warrant and any provision hereof may be amended,

waived or terminated (either generally or in a particular instance, retroactively or prospectively and for a specified period of time or indefinitely) only by a written instrument signed by the Company and the Holder, or, in the event of any partial transfer of the rights represented by this Warrant, the Holders of rights to purchase more than fifty percent (50%) of the Warrant Shares issuable upon exercise of the rights represented by this Warrant, and with the same consent the Company may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Warrant or the Warrants, as the case may be, provided, however, that no such amendment, waiver, termination or supplemental agreement shall reduce the aforesaid percentage which is required for consent to any amendment, waiver, termination or supplemental agreement without the consent of all of the Holders of the rights represented by this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its
duly authorized officer.

Issued this 31st day of December, 1998

PC-TEL, INC.,
a Delaware corporation

By: /s/ Peter Chen

Name: Peter Chen

Title: President & CEO

By:

Name:

Title:

Acknowledged and Accepted:

PFF BANK AND TRUST, INC.
A California corporation

By: /s/ Kenneth O. Wentzel

Name: Kenneth O. Wentzel

Title: Vice President

Date: March 26, 1999

EXHIBIT A

NOTICE OF CASH EXERCISE

To: PC-TEL, Inc.
70 Rio Robles
San Jose, CA 95134

1. The undersigned hereby elects to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), pursuant to the terms of Warrant No. _____, issued on _____, 199__, to and in the name of PFF Bank and Trust, Inc., a copy of which is attached hereto (the "Warrant"), and tenders herewith full payment of the aggregate Exercise Price for such shares in accordance with the terms of the Warrant.

2. Please issue a certificate or certificates representing said shares of Series C Preferred Stock in such name or names as specified below:

PFF Bank and Trust, Inc.

a California corporation

The undersigned hereby represents and warrants that the aforesaid shares of Series C Preferred Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares and all representations and warranties of the undersigned set forth in attached Warrant are true and correct as of the date hereof. In support thereof, the undersigned has executed an Investment Representation Statement, in the form attached as Exhibit C to the Warrant, concurrently herewith.

PFF Bank and Trust, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT B

NOTICE OF NET-ISSUE EXERCISE

To: PC-TEL, Inc.
70 Rio Robles
San Jose, CA 95134

1. The undersigned hereby elects to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), on a net-issue basis pursuant to the terms of Warrant No. _____, issued on _____, 199____, to _____ and in the name of PFF Bank and Trust, Inc., a copy of which is attached hereto (the "Warrant").

2. Net-Issue Information:

(a) Number of Shares of Series C Preferred Stock to be Delivered:

(b) Number of Shares of Series C Preferred Stock Surrendered:

(c) Number of Shares Remaining Subject to Warrant:

3. Please issue a certificate or certificates representing said shares of Series C Preferred Stock in such name or names as specified below:

PFF Bank and Trust, Inc.

4. The undersigned hereby represents and warrants that the aforesaid shares of Series C Preferred Stock are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof, and that the undersigned has no present intention of distributing or reselling such shares and all representations and warranties of the undersigned set forth in attached Warrant are true and correct as of the date hereof. In support thereof, the undersigned has executed an Investment Representation Statement, in the form attached as Exhibit C to the Warrant, concurrently herewith.

PFF Bank and Trust, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT C

INVESTMENT REPRESENTATION STATEMENT

PURCHASER: PFF Bank and Trust, Inc.

SELLER: PC-TEL, Inc.

COMPANY: PC-TEL, Inc.

SECURITY: Series C Preferred Stock Issued Upon The Exercise Of Warrant No.
_____ Issued On _____, 199__.

AMOUNT: _____ SHARES

DATE: _____

The undersigned hereby represent and warrants to PC-TEL, Inc., a Delaware corporation (the "Company"), as follows:

1. I am aware of the business affairs, financial condition and results of operations of the Company and have acquired sufficient information about the Company to reach an informed and knowledgeable investment decision to acquire the Securities. I am purchasing the Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

2. I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. I understand that, in the view of the Securities and Exchange Commission (the "Commission"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold the Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

3. I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

4. I am familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or

indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions.

5. I further understand that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

PFF Bank and Trust, Inc.

By: _____

Name: _____

Title: _____

Date: _____

EXHIBIT D

NOTICE OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by Warrant No. _____, issued on _____, 199__, to and in the name of _____, to purchase _____ shares of Series C Preferred Stock of PC-TEL, Inc., a Delaware corporation (the "Company"), a copy of which is attached hereto (the "Warrant"), and appoints _____ as attorney-in-fact to transfer such right on the books of the Company with full power of substitution in the premises.

Dated: _____ PFF Bank and Trust, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

(Signature must conform in all respects to name of the Holder as set forth on the face of the Warrant)

Address:

Signed in the presence of:

- _____

EXHIBIT E

INVESTMENT REPRESENTATION STATEMENT

PURCHASER: PFF Bank and Trust, Inc.

TRANSFEROR: -----

COMPANY: PC-TEL, Inc.

SECURITY: WARRANT NO. _____, ISSUED ON _____, 199 .

AMOUNT: _____SHARES

DATE: -----

The undersigned hereby represent and warrants to PC-TEL, Inc., a Delaware corporation (the "Company"), as follows:

1. I am aware of the business affairs, financial condition and results of operations of the Company and have acquired sufficient information about the Company to reach an informed and knowledgeable investment decision to acquire the Securities. I am purchasing the Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

2. I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. I understand that, in the view of the Securities and Exchange Commission (the "Commission"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold the Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

3. I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

4. I am familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions.

5. I further understand that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other

registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: _____ PFF Bank and Trust, Inc.,
a California corporation

By: _____

Name: _____

Title: _____

Date: _____

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

February 18, 1998

PC-Tel, Inc.
a California corporation

Common Stock Purchase Warrant

THIS CERTIFIES THAT, for value received, Edward Gibstein (hereinafter, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to purchase from PC-TEL, INC., a California corporation (the "Company"), that number of fully paid and nonassessable shares of the Company's Common Stock at the purchase price per share as determined in Section 1 below.

Terms and Conditions of Warrant

1. Number of Shares; Exercise Price; Term.

(a) Subject to the terms and conditions set forth herein, the Holder is entitled to purchase from the Company, at any time after the date hereof and on or before the date of termination of this Warrant provided for in Section 1(b) below, up to 750 fully paid and non-assessable shares of the Company's Common Stock (the "Shares") at an exercise price per share of \$8.00 (the "Exercise Price").

(b) This Warrant (and the right to purchase securities upon exercise hereof) shall expire and cease to be exercisable if not exercised prior to the earliest to occur of (i) the acquisition of the Company by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company) in which, immediately after completion of such transaction, the shareholders of the Company prior to such transaction or series of related transactions own less than fifty percent (50%) of the voting power of the surviving entity after such transaction or series of transactions, and (ii) 5:00 p.m. (Pacific Time) on February 4, 2001 (the "Expiration Date"). The Company shall provide the Holder not less than 10 days' prior written notice of the completion of any transaction contemplated in (i) above.

2. Exercise of Warrant.

(a) This Warrant may be exercised by the Holder as to the whole or any lesser number of the Shares covered hereby, as set forth in Section 1 above, upon surrender of this Warrant to the Company at its principal executive offices together with the Notice of Exercise and Investment Representation Statement annexed hereto as Exhibits A and B, respectively, duly completed and executed by

the Holder, and payment to the Company in cash of the aggregate Exercise Price for the Shares to be purchased. Certificates for the Shares so purchased shall be delivered to the Holder within

a reasonable time after exercise of the stock purchase rights represented by this Warrant. The exercise of this Warrant shall be deemed to have been effected on the day on which the Holder surrenders this Warrant to the Company and satisfies all of the requirements of this Section 2. Upon such exercise, the Holder will be deemed a shareholder of record of those Shares for which the warrant has been exercised with all rights of a shareholder (including, without limitation, all voting rights with respect to such Shares and all rights to receive any dividends with respect to such Shares). If this Warrant is to be exercised in respect of less than all of the Shares covered hereby, the Holder shall be entitled to receive a new warrant covering the number of Shares in respect of which this Warrant shall not have been exercised and for which it remains subject to exercise. Such new warrant shall be in all other respects identical to this Warrant.

(b) Notwithstanding the payment provisions set forth in Section 2(a) above, the Holder may elect to receive Shares equal to the value of this Warrant (or of any portion thereof remaining unexercised) by surrender of this Warrant at the principal office of the Company together with notice of such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where: X = the number of Shares to be issued to the Holder;
Y = the number of Shares purchasable under this Warrant (at the date of such calculation);
A = the Fair Market Value of one Share; and
B = the Exercise Price (at the date of such calculation).

(c) For purposes of section 3(b) above, the Fair Market Value of one Share shall mean (i) if the Company's Common Stock is listed on any established stock exchange or national market system, including, without limitation, the National Market of The Nasdaq Stock Market, the closing sales price of one share of the Company's Common Stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in the Company's Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (ii) if the Company's Common Stock is quoted on The Nasdaq Stock Market (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the mean between the high and low asked prices for the Company's Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (iii) if exercised in connection with respect to a merger or consolidation of the Company or the sale of all or substantially all of the assets of the Company, the amount of cash or the value of securities actually received by the Company or its shareholders in such transaction for each share of the Company's Common Stock; or (iv) as otherwise determined by the Board of Directors of the Company, acting in good faith.

3. Covenants of the Company. The Company covenants and agrees that all

Common Stock which may be issued upon the exercise of the rights represented by this Warrant, upon issuance and

payment therefor in accordance herewith, will be duly authorized, validly issued, fully paid, and nonassessable shares of Common Stock of the Company. The Company further covenants and agrees that, during the period within which the stock purchase rights represented by this Warrant may be exercised, the Company will at all times have duly authorized and duly reserved for issuance upon the exercise of the purchase rights evidenced by this Warrant a number of shares of Common Stock sufficient for such issuance.

4. Transfer, Exchange, Assignment, or Loss of Warrant.

(a) This Warrant may not be assigned or transferred except as provided in this Section 4 and in accordance with and subject to the provisions of the Securities Act and the Rules and Regulations promulgated thereunder. Any purported transfer or assignment made other than in accordance with this Section 4 shall be null and void and of no force or effect.

(b) Prior to any transfer of this Warrant, the Holder shall notify the Company of its intention to effect such transfer, indicating the circumstances of the proposed transfer and, upon request, furnish the Company with an opinion of its counsel, in form and substance satisfactory to counsel for the Company, to the effect that the proposed transfer may be made without registration under the Securities Act or qualification under any applicable state securities laws. The Company will promptly notify the Holder if the opinion of counsel furnished to the Company is satisfactory to counsel for the Company. Unless the Company notifies the Holder within ten (10) days after its receipt of such opinion that such opinion is not satisfactory to counsel for the Company, the Holder may proceed to effect the transfer.

(c) Unless a registration statement under the Securities Act is effective with respect to the Shares or any other security issued upon exercise of this Warrant, the certificate representing such Shares or other securities shall bear the following legend, in addition to any legend imposed by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

(d) Any assignment permitted hereunder shall be made by surrender of this Warrant to the Company at its principal office with the Assignment Form attached hereto as Exhibit C duly executed. In such event, the Company shall,

without charge for any issuance or transfer tax or other cost incurred by the Company with respect to such transfer, execute and deliver a new Warrant in the name of the assignee named in such instrument of assignment, and this Warrant shall be promptly cancelled. This Warrant may be divided or combined with other Warrants which carry the same rights upon

presentation thereof at the principal office of the Company, together with a written notice signed by the Holders thereof, specifying the name and denominations in which such new Warrants are to be issued.

(e) Upon receipt by the Company of satisfactory evidence of loss, theft, destruction, or mutilation of this Warrant and of indemnity satisfactory to the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, or destroyed Warrant shall thereupon become void. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not the Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

5. No Fractional Shares or Scrip. No fractional shares or scrip

representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which such holder would otherwise be entitled, such holder shall be entitled, at its option, to receive either (i) a cash payment equal to the excess of the Fair Market Value for such fractional share above the Exercise Price for such fractional share (as mutually determined by the Company and the Holder) or (ii) a whole share if the Holder tenders the Exercise Price for one whole share.

6. No Rights as Shareholders. This Warrant does not entitle the holder

hereof to any voting rights, dividend rights, or other rights as a shareholder of the Company prior to the exercise hereof.

7. Saturdays, Sundays, Holidays, etc. If the last or appointed day for

the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday or a Sunday or a legal holiday.

8. Adjustments. The Exercise Price per Share and the number of Shares

purchasable hereunder shall be subject to adjustment from time to time as follows:

(a) Merger. If at any time there shall be a merger or consolidation

of the Company with or into another corporation when the Company is not the surviving corporation, then, as a part of such merger or consolidation, lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger or consolidation if this Warrant had been exercised immediately before such merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the merger or consolidation.

(b) Reclassification, etc. If the Company shall, at any time, by

subdivision, combination, or reclassification of securities or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, the Exercise Price shall be adjusted such that this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such

change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split, Subdivision or Combination of Shares. If the Company at

any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, the Exercise Price shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

9. Notice of Adjustments; Notices. Whenever the Exercise Price or number

of Shares issuable upon exercise hereof shall be adjusted pursuant to Section 8 hereof, the Company shall issue a certificate signed by its Chief Executive Officer or Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the holder of this Warrant.

10. Miscellaneous.

(a) Successors and Assigns. This Warrant shall be binding upon any

successors or assigns of the Company.

(b) Governing Law. This Warrant shall be governed by and construed in

accordance with the laws of the State of California as applied to agreements between California residents entered and to be performed entirely within California.

(c) Attorneys' Fees. In any litigation, arbitration, or court

proceeding between the Company and the holder relating hereto, the prevailing party shall be entitled to reasonable attorneys' fees and expenses incurred in enforcing this Warrant.

(d) Amendments. This Warrant may be amended and the observance of any

term of this Warrant may be waived only with the written consent of the Company and the Holder, or in the event that this Warrant shall have been transferred in part, with the written consent of the Company and the holders of warrants representing a majority-in-interest of the Shares originally issuable hereunder.

(e) Notice. Any notice required or permitted hereunder shall be

deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by certified mail, postage prepaid and addressed to the party to be notified at the address indicated below for such party, or at such other address as such other party may designate by ten-day advance written notice.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be executed by its officer thereunto duly authorized as of the date first above written.

PC-TEL, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

WARRANT HOLDER:

- _____
Signature
- _____
Print Name
- _____
Street Address
- _____
City State Zip Code

[Warrant Signature Page]

EXHIBIT A
NOTICE OF EXERCISE

NOTICE OF EXERCISE
STOCK PURCHASE WARRANT

To: PC-TEL, INC.

1. The undersigned hereby elects to purchase _____ shares of _____ ("Stock") of PC-Tel, Inc. (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the aggregate exercise price therefor and any transfer taxes payable pursuant to the terms of the Warrant, together with an Investment Representation Statement in form and substance satisfactory to legal counsel to the Company.
2. The shares of Stock to be received by the undersigned upon exercise of the Warrant are being acquired for its own account, not as a nominee or agent, and not with a view to resale or distribution of any part thereof, and the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the same. The undersigned further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to the Stock. The undersigned believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Stock.
3. The undersigned understands that the shares of Stock are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in transactions not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, the undersigned represents that it is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.
4. The undersigned covenants and agrees, in connection with any registration of the Company's initial public offering of Common Stock, upon request of the Company or the underwriters managing such offering, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company for such period of time (not to exceed 180 days) from the effective date of the Company's registration statement filed with and declared effective by the Securities and Exchange Commission as the Company or the managing underwriters shall determine. The undersigned further covenants and agrees to enter into a customary form of "lock-up" agreement upon request of the Company or the underwriters managing such offering to the extent not inconsistent with the preceding sentence.
5. The undersigned understands the instruments evidencing the Stock may bear the following legend, in addition to any legend required by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

6. Please issue a certificate or certificates representing said shares of Stock in the name of the undersigned:

Name: _____

Address: _____

7. Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned:

Name: _____

Address: _____

IN WITNESS WHEREOF, the Warrantholder has executed this Notice of Exercise effective this ____ day of _____, ____.

WARRANTHOLDER

By: _____

Name: _____

Title: _____

[NOTICE OF EXERCISE OF STOCK PURCHASE WARRANT]

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : -----
COMPANY : PC-TEL, INC.
SECURITIES : -----
DATE : -----

In connection with the purchase of the above-listed Securities, the undersigned, the Purchaser represents to the Company the following:

(a) The undersigned is sufficiently aware of the Company's business affairs and financial condition to reach an informed and knowledgeable decision to acquire the Securities. The undersigned is purchasing these Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) The undersigned understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. In this connection, the undersigned understands that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if its representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) The undersigned further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available (such as Rule 144 under the Securities Act). Moreover, the undersigned understands that the Company is under no obligation to register the Securities. In addition, the undersigned understands that the certificate evidencing the Securities may be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) The undersigned is familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, including, among other things: (1) The availability of certain public information about the Company; (2) the resale's occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be

sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker, as said term is defined under the Securities Exchange Act of 1934 (the "Exchange Act") and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable. There can be no assurances that the requirements of Rule 144 will be met, or that the Securities will ever be saleable.

(e) The undersigned further understands that at the time the undersigned wishes to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, the undersigned would be precluded from selling the Securities under Rule 144 even if the applicable minimum holding period had been satisfied.

(f) The undersigned further understands that in the event all of the applicable requirements of Rule 144 are not satisfied registration under the Securities Act, compliance with Regulation A, compliance with some other registration exemption or the notification to the Company of the proposed disposition by it and the furnishing to the Company of (i) detailed information regarding the disposition, and (ii) an opinion of its counsel to the effect that such disposition will not require registration (the undersigned understands such counsel's opinion shall concur with the opinion by counsel for the Company and the undersigned shall have been informed of such compliance) will be required and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

By: _____

Name: _____

Title: _____

EXHIBIT C
ASSIGNMENT FORM

ASSIGNMENT FORM

(To assign the foregoing Common Stock Purchase Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

(Please Print)

whose address is

(Please Print)

Dated: _____, 19 ____.

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

February 18, 1998

PC-Tel, Inc.
a California corporation

Common Stock Purchase Warrant

THIS CERTIFIES THAT, for value received, Irving Minnaker (hereinafter, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to purchase from PC-TEL, INC., a California corporation (the "Company"), that number of fully paid and nonassessable shares of the Company's Common Stock at the purchase price per share as determined in Section 1 below.

Terms and Conditions of Warrant

1. Number of Shares; Exercise Price; Term.

(a) Subject to the terms and conditions set forth herein, the Holder is entitled to purchase from the Company, at any time after the date hereof and on or before the date of termination of this Warrant provided for in Section 1(b) below, up to 558 fully paid and non-assessable shares of the Company's Common Stock (the "Shares") at an exercise price per share of \$8.00 (the "Exercise Price").

(b) This Warrant (and the right to purchase securities upon exercise hereof) shall expire and cease to be exercisable if not exercised prior to the earliest to occur of (i) the acquisition of the Company by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company) in which, immediately after completion of such transaction, the shareholders of the Company prior to such transaction or series of related transactions own less than fifty percent (50%) of the voting power of the surviving entity after such transaction or series of transactions, and (ii) 5:00 p.m. (Pacific Time) on February 4, 2001 (the "Expiration Date"). The Company shall provide the Holder not less than 10 days' prior written notice of the completion of any transaction contemplated in (i) above.

2. Exercise of Warrant.

(a) This Warrant may be exercised by the Holder as to the whole or any lesser number of the Shares covered hereby, as set forth in Section 1 above, upon surrender of this Warrant to the Company at its principal executive offices together with the Notice of Exercise and Investment Representation Statement annexed hereto as Exhibits A and B, respectively, duly completed and executed by

the Holder, and payment to the Company in cash of the aggregate Exercise Price for the Shares to be purchased. Certificates for the Shares so purchased shall be delivered to the Holder within

a reasonable time after exercise of the stock purchase rights represented by this Warrant. The exercise of this Warrant shall be deemed to have been effected on the day on which the Holder surrenders this Warrant to the Company and satisfies all of the requirements of this Section 2. Upon such exercise, the Holder will be deemed a shareholder of record of those Shares for which the warrant has been exercised with all rights of a shareholder (including, without limitation, all voting rights with respect to such Shares and all rights to receive any dividends with respect to such Shares). If this Warrant is to be exercised in respect of less than all of the Shares covered hereby, the Holder shall be entitled to receive a new warrant covering the number of Shares in respect of which this Warrant shall not have been exercised and for which it remains subject to exercise. Such new warrant shall be in all other respects identical to this Warrant.

(b) Notwithstanding the payment provisions set forth in Section 2(a) above, the Holder may elect to receive Shares equal to the value of this Warrant (or of any portion thereof remaining unexercised) by surrender of this Warrant at the principal office of the Company together with notice of such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where: X = the number of Shares to be issued to the Holder;
Y = the number of Shares purchasable under this Warrant
(at the date of such calculation);
A = the Fair Market Value of one Share; and
B = the Exercise Price (at the date of such calculation).

(c) For purposes of section 3(b) above, the Fair Market Value of one Share shall mean (i) if the Company's Common Stock is listed on any established stock exchange or national market system, including, without limitation, the National Market of The Nasdaq Stock Market, the closing sales price of one share of the Company's Common Stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in the Company's Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (ii) if the Company's Common Stock is quoted on The Nasdaq Stock Market (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the mean between the high and low asked prices for the Company's Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (iii) if exercised in connection with respect to a merger or consolidation of the Company or the sale of all or substantially all of the assets of the Company, the amount of cash or the value of securities actually received by the Company or its shareholders in such transaction for each share of the Company's Common Stock; or (iv) as otherwise determined by the Board of Directors of the Company, acting in good faith.

3. Covenants of the Company. The Company covenants and agrees that all

Common Stock which may be issued upon the exercise of the rights represented by this Warrant, upon issuance and

payment therefor in accordance herewith, will be duly authorized, validly issued, fully paid, and nonassessable shares of Common Stock of the Company. The Company further covenants and agrees that, during the period within which the stock purchase rights represented by this Warrant may be exercised, the Company will at all times have duly authorized and duly reserved for issuance upon the exercise of the purchase rights evidenced by this Warrant a number of shares of Common Stock sufficient for such issuance.

4. Transfer, Exchange, Assignment, or Loss of Warrant.

(a) This Warrant may not be assigned or transferred except as provided in this Section 4 and in accordance with and subject to the provisions of the Securities Act and the Rules and Regulations promulgated thereunder. Any purported transfer or assignment made other than in accordance with this Section 4 shall be null and void and of no force or effect.

(b) Prior to any transfer of this Warrant, the Holder shall notify the Company of its intention to effect such transfer, indicating the circumstances of the proposed transfer and, upon request, furnish the Company with an opinion of its counsel, in form and substance satisfactory to counsel for the Company, to the effect that the proposed transfer may be made without registration under the Securities Act or qualification under any applicable state securities laws. The Company will promptly notify the Holder if the opinion of counsel furnished to the Company is satisfactory to counsel for the Company. Unless the Company notifies the Holder within ten (10) days after its receipt of such opinion that such opinion is not satisfactory to counsel for the Company, the Holder may proceed to effect the transfer.

(c) Unless a registration statement under the Securities Act is effective with respect to the Shares or any other security issued upon exercise of this Warrant, the certificate representing such Shares or other securities shall bear the following legend, in addition to any legend imposed by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

(d) Any assignment permitted hereunder shall be made by surrender of this Warrant to the Company at its principal office with the Assignment Form attached hereto as Exhibit C duly executed. In such event, the Company shall,

without charge for any issuance or transfer tax or other cost incurred by the Company with respect to such transfer, execute and deliver a new Warrant in the name of the assignee named in such instrument of assignment, and this Warrant shall be promptly cancelled. This Warrant may be divided or combined with other Warrants which carry the same rights upon

presentation thereof at the principal office of the Company, together with a written notice signed by the Holders thereof, specifying the name and denominations in which such new Warrants are to be issued.

(e) Upon receipt by the Company of satisfactory evidence of loss, theft, destruction, or mutilation of this Warrant and of indemnity satisfactory to the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, or destroyed Warrant shall thereupon become void. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not the Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

5. No Fractional Shares or Scrip. No fractional shares or scrip

representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which such holder would otherwise be entitled, such holder shall be entitled, at its option, to receive either (i) a cash payment equal to the excess of the Fair Market Value for such fractional share above the Exercise Price for such fractional share (as mutually determined by the Company and the Holder) or (ii) a whole share if the Holder tenders the Exercise Price for one whole share.

6. No Rights as Shareholders. This Warrant does not entitle the holder

hereof to any voting rights, dividend rights, or other rights as a shareholder of the Company prior to the exercise hereof.

7. Saturdays, Sundays, Holidays, etc. If the last or appointed day for

the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday or a Sunday or a legal holiday.

8. Adjustments. The Exercise Price per Share and the number of Shares

purchasable hereunder shall be subject to adjustment from time to time as follows:

(a) Merger. If at any time there shall be a merger or consolidation

of the Company with or into another corporation when the Company is not the surviving corporation, then, as a part of such merger or consolidation, lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger or consolidation if this Warrant had been exercised immediately before such merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the merger or consolidation.

(b) Reclassification, etc. If the Company shall, at any time, by

subdivision, combination, or reclassification of securities or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, the Exercise Price shall be adjusted such that this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such

change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split, Subdivision or Combination of Shares. If the Company at

any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, the Exercise Price shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

9. Notice of Adjustments; Notices. Whenever the Exercise Price or number

of Shares issuable upon exercise hereof shall be adjusted pursuant to Section 8 hereof, the Company shall issue a certificate signed by its Chief Executive Officer or Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the holder of this Warrant.

10. Miscellaneous.

(a) Successors and Assigns. This Warrant shall be binding upon any

successors or assigns of the Company.

(b) Governing Law. This Warrant shall be governed by and construed in

accordance with the laws of the State of California as applied to agreements between California residents entered and to be performed entirely within California.

(c) Attorneys' Fees. In any litigation, arbitration, or court

proceeding between the Company and the holder relating hereto, the prevailing party shall be entitled to reasonable attorneys' fees and expenses incurred in enforcing this Warrant.

(d) Amendments. This Warrant may be amended and the observance of any

term of this Warrant may be waived only with the written consent of the Company and the Holder, or in the event that this Warrant shall have been transferred in part, with the written consent of the Company and the holders of warrants representing a majority-in-interest of the Shares originally issuable hereunder.

(e) Notice. Any notice required or permitted hereunder shall be

deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by certified mail, postage prepaid and addressed to the party to be notified at the address indicated below for such party, or at such other address as such other party may designate by ten-day advance written notice.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be executed by its officer thereunto duly authorized as of the date first above written.

PC-TEL, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

WARRANT HOLDER:

- _____
Signature
- _____
Print Name
- _____
Street Address
- _____
City State Zip Code

[Warrant Signature Page]

EXHIBIT A
NOTICE OF EXERCISE

NOTICE OF EXERCISE
STOCK PURCHASE WARRANT

To: PC-TEL, INC.

1. The undersigned hereby elects to purchase _____ shares of _____ ("Stock") of PC-Tel, Inc. (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the aggregate exercise price therefor and any transfer taxes payable pursuant to the terms of the Warrant, together with an Investment Representation Statement in form and substance satisfactory to legal counsel to the Company.
2. The shares of Stock to be received by the undersigned upon exercise of the Warrant are being acquired for its own account, not as a nominee or agent, and not with a view to resale or distribution of any part thereof, and the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the same. The undersigned further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to the Stock. The undersigned believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Stock.
3. The undersigned understands that the shares of Stock are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in transactions not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, the undersigned represents that it is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.
4. The undersigned covenants and agrees, in connection with any registration of the Company's initial public offering of Common Stock, upon request of the Company or the underwriters managing such offering, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company for such period of time (not to exceed 180 days) from the effective date of the Company's registration statement filed with and declared effective by the Securities and Exchange Commission as the Company or the managing underwriters shall determine. The undersigned further covenants and agrees to enter into a customary form of "lock-up" agreement upon request of the Company or the underwriters managing such offering to the extent not inconsistent with the preceding sentence.
5. The undersigned understands the instruments evidencing the Stock may bear the following legend, in addition to any legend required by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

6. Please issue a certificate or certificates representing said shares of Stock in the name of the undersigned:

Name: _____

Address: _____

7. Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned:

Name: _____

Address: _____

IN WITNESS WHEREOF, the Warrantholder has executed this Notice of Exercise effective this ____ day of _____, ____.

WARRANTHOLDER

By: _____

Name: _____

Title: _____

[NOTICE OF EXERCISE OF STOCK PURCHASE WARRANT]

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : _____

COMPANY : PC-TEL, INC.

SECURITIES : _____

DATE : _____

In connection with the purchase of the above-listed Securities, the undersigned, the Purchaser represents to the Company the following:

(a) The undersigned is sufficiently aware of the Company's business affairs and financial condition to reach an informed and knowledgeable decision to acquire the Securities. The undersigned is purchasing these Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) The undersigned understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. In this connection, the undersigned understands that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if its representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) The undersigned further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available (such as Rule 144 under the Securities Act). Moreover, the undersigned understands that the Company is under no obligation to register the Securities. In addition, the undersigned understands that the certificate evidencing the Securities may be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) The undersigned is familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, including, among other things: (1) The availability of certain public information about the Company; (2) the resale's occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be

sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker, as said term is defined under the Securities Exchange Act of 1934 (the "Exchange Act") and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable. There can be no assurances that the requirements of Rule 144 will be met, or that the Securities will ever be saleable.

(e) The undersigned further understands that at the time the undersigned wishes to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, the undersigned would be precluded from selling the Securities under Rule 144 even if the applicable minimum holding period had been satisfied.

(f) The undersigned further understands that in the event all of the applicable requirements of Rule 144 are not satisfied registration under the Securities Act, compliance with Regulation A, compliance with some other registration exemption or the notification to the Company of the proposed disposition by it and the furnishing to the Company of (i) detailed information regarding the disposition, and (ii) and opinion of its counsel to the effect that such disposition will not require registration (the undersigned understands such counsel's opinion shall concur with the opinion by counsel for the Company and the undersigned shall have been informed of such compliance) will be required and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

By: _____

Name: _____

Title: _____

EXHIBIT C
ASSIGNMENT FORM

ASSIGNMENT FORM

(To assign the foregoing Common Stock Purchase Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

(Please Print)

whose address is

(Please Print)

Dated: _____, 19 ____.

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

February 18, 1998

PC-Tel, Inc.
a California corporation

Common Stock Purchase Warrant

THIS CERTIFIES THAT, for value received, Mitchell Segal (hereinafter, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to purchase from PC-TEL, INC., a California corporation (the "Company"), that number of fully paid and nonassessable shares of the Company's Common Stock at the purchase price per share as determined in Section 1 below.

Terms and Conditions of Warrant

1. Number of Shares; Exercise Price; Term.

(a) Subject to the terms and conditions set forth herein, the Holder is entitled to purchase from the Company, at any time after the date hereof and on or before the date of termination of this Warrant provided for in Section 1(b) below, up to 505 fully paid and non-assessable shares of the Company's Common Stock (the "Shares") at an exercise price per share of \$8.00 (the "Exercise Price").

(b) This Warrant (and the right to purchase securities upon exercise hereof) shall expire and cease to be exercisable if not exercised prior to the earliest to occur of (i) the acquisition of the Company by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company) in which, immediately after completion of such transaction, the shareholders of the Company prior to such transaction or series of related transactions own less than fifty percent (50%) of the voting power of the surviving entity after such transaction or series of transactions, and (ii) 5:00 p.m. (Pacific Time) on February 4, 2001 (the "Expiration Date"). The Company shall provide the Holder not less than 10 days' prior written notice of the completion of any transaction contemplated in (i) above.

2. Exercise of Warrant.

(a) This Warrant may be exercised by the Holder as to the whole or any lesser number of the Shares covered hereby, as set forth in Section 1 above, upon surrender of this Warrant to the Company at its principal executive offices together with the Notice of Exercise and Investment Representation Statement annexed hereto as Exhibits A and B, respectively, duly completed and executed by

the Holder, and payment to the Company in cash of the aggregate Exercise Price for the Shares to be purchased. Certificates for the Shares so purchased shall be delivered to the Holder within

a reasonable time after exercise of the stock purchase rights represented by this Warrant. The exercise of this Warrant shall be deemed to have been effected on the day on which the Holder surrenders this Warrant to the Company and satisfies all of the requirements of this Section 2. Upon such exercise, the Holder will be deemed a shareholder of record of those Shares for which the warrant has been exercised with all rights of a shareholder (including, without limitation, all voting rights with respect to such Shares and all rights to receive any dividends with respect to such Shares). If this Warrant is to be exercised in respect of less than all of the Shares covered hereby, the Holder shall be entitled to receive a new warrant covering the number of Shares in respect of which this Warrant shall not have been exercised and for which it remains subject to exercise. Such new warrant shall be in all other respects identical to this Warrant.

(b) Notwithstanding the payment provisions set forth in Section 2(a) above, the Holder may elect to receive Shares equal to the value of this Warrant (or of any portion thereof remaining unexercised) by surrender of this Warrant at the principal office of the Company together with notice of such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where: X = the number of Shares to be issued to the Holder;
Y = the number of Shares purchasable under this Warrant (at the date of such calculation);
A = the Fair Market Value of one Share; and
B = the Exercise Price (at the date of such calculation).

(c) For purposes of section 3(b) above, the Fair Market Value of one Share shall mean (i) if the Company's Common Stock is listed on any established stock exchange or national market system, including, without limitation, the National Market of The Nasdaq Stock Market, the closing sales price of one share of the Company's Common Stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in the Company's Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (ii) if the Company's Common Stock is quoted on The Nasdaq Stock Market (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the mean between the high and low asked prices for the Company's Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (iii) if exercised in connection with respect to a merger or consolidation of the Company or the sale of all or substantially all of the assets of the Company, the amount of cash or the value of securities actually received by the Company or its shareholders in such transaction for each share of the Company's Common Stock; or (iv) as otherwise determined by the Board of Directors of the Company, acting in good faith.

3. Covenants of the Company. The Company covenants and agrees that all Common Stock which may be issued upon the exercise of the rights represented by this Warrant, upon issuance and

payment therefor in accordance herewith, will be duly authorized, validly issued, fully paid, and nonassessable shares of Common Stock of the Company. The Company further covenants and agrees that, during the period within which the stock purchase rights represented by this Warrant may be exercised, the Company will at all times have duly authorized and duly reserved for issuance upon the exercise of the purchase rights evidenced by this Warrant a number of shares of Common Stock sufficient for such issuance.

4. Transfer, Exchange, Assignment, or Loss of Warrant.

(a) This Warrant may not be assigned or transferred except as provided in this Section 4 and in accordance with and subject to the provisions of the Securities Act and the Rules and Regulations promulgated thereunder. Any purported transfer or assignment made other than in accordance with this Section 4 shall be null and void and of no force or effect.

(b) Prior to any transfer of this Warrant, the Holder shall notify the Company of its intention to effect such transfer, indicating the circumstances of the proposed transfer and, upon request, furnish the Company with an opinion of its counsel, in form and substance satisfactory to counsel for the Company, to the effect that the proposed transfer may be made without registration under the Securities Act or qualification under any applicable state securities laws. The Company will promptly notify the Holder if the opinion of counsel furnished to the Company is satisfactory to counsel for the Company. Unless the Company notifies the Holder within ten (10) days after its receipt of such opinion that such opinion is not satisfactory to counsel for the Company, the Holder may proceed to effect the transfer.

(c) Unless a registration statement under the Securities Act is effective with respect to the Shares or any other security issued upon exercise of this Warrant, the certificate representing such Shares or other securities shall bear the following legend, in addition to any legend imposed by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

(d) Any assignment permitted hereunder shall be made by surrender of this Warrant to the Company at its principal office with the Assignment Form attached hereto as Exhibit C duly executed. In such event, the Company shall,

without charge for any issuance or transfer tax or other cost incurred by the Company with respect to such transfer, execute and deliver a new Warrant in the name of the assignee named in such instrument of assignment, and this Warrant shall be promptly cancelled. This Warrant may be divided or combined with other Warrants which carry the same rights upon

presentation thereof at the principal office of the Company, together with a written notice signed by the Holders thereof, specifying the name and denominations in which such new Warrants are to be issued.

(e) Upon receipt by the Company of satisfactory evidence of loss, theft, destruction, or mutilation of this Warrant and of indemnity satisfactory to the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, or destroyed Warrant shall thereupon become void. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not the Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

5. No Fractional Shares or Scrip. No fractional shares or scrip

representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which such holder would otherwise be entitled, such holder shall be entitled, at its option, to receive either (i) a cash payment equal to the excess of the Fair Market Value for such fractional share above the Exercise Price for such fractional share (as mutually determined by the Company and the Holder) or (ii) a whole share if the Holder tenders the Exercise Price for one whole share.

6. No Rights as Shareholders. This Warrant does not entitle the holder

hereof to any voting rights, dividend rights, or other rights as a shareholder of the Company prior to the exercise hereof.

7. Saturdays, Sundays, Holidays, etc. If the last or appointed day for

the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday or a Sunday or a legal holiday.

8. Adjustments. The Exercise Price per Share and the number of Shares

purchasable hereunder shall be subject to adjustment from time to time as follows:

(a) Merger. If at any time there shall be a merger or consolidation

of the Company with or into another corporation when the Company is not the surviving corporation, then, as a part of such merger or consolidation, lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger or consolidation if this Warrant had been exercised immediately before such merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the merger or consolidation.

(b) Reclassification, etc. If the Company shall, at any time, by

subdivision, combination, or reclassification of securities or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, the Exercise Price shall be adjusted such that this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such

change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split, Subdivision or Combination of Shares. If the Company at

any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, the Exercise Price shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

9. Notice of Adjustments; Notices. Whenever the Exercise Price or number

of Shares issuable upon exercise hereof shall be adjusted pursuant to Section 8 hereof, the Company shall issue a certificate signed by its Chief Executive Officer or Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the holder of this Warrant.

10. Miscellaneous.

(a) Successors and Assigns. This Warrant shall be binding upon any

successors or assigns of the Company.

(b) Governing Law. This Warrant shall be governed by and construed in

accordance with the laws of the State of California as applied to agreements between California residents entered and to be performed entirely within California.

(c) Attorneys' Fees. In any litigation, arbitration, or court

proceeding between the Company and the holder relating hereto, the prevailing party shall be entitled to reasonable attorneys' fees and expenses incurred in enforcing this Warrant.

(d) Amendments. This Warrant may be amended and the observance of any

term of this Warrant may be waived only with the written consent of the Company and the Holder, or in the event that this Warrant shall have been transferred in part, with the written consent of the Company and the holders of warrants representing a majority-in-interest of the Shares originally issuable hereunder.

(e) Notice. Any notice required or permitted hereunder shall be

deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by certified mail, postage prepaid and addressed to the party to be notified at the address indicated below for such party, or at such other address as such other party may designate by ten-day advance written notice.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be executed by its officer thereunto duly authorized as of the date first above written.

PC-TEL, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

WARRANT HOLDER:

- _____
Signature
- _____
Print Name
- _____
Street Address
- _____
City State Zip Code

[Warrant Signature Page]

EXHIBIT A
NOTICE OF EXERCISE

NOTICE OF EXERCISE
STOCK PURCHASE WARRANT

To: PC-TEL, INC.

1. The undersigned hereby elects to purchase _____ shares of _____ ("Stock") of PC-Tel, Inc. (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the aggregate exercise price therefor and any transfer taxes payable pursuant to the terms of the Warrant, together with an Investment Representation Statement in form and substance satisfactory to legal counsel to the Company.
2. The shares of Stock to be received by the undersigned upon exercise of the Warrant are being acquired for its own account, not as a nominee or agent, and not with a view to resale or distribution of any part thereof, and the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the same. The undersigned further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to the Stock. The undersigned believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Stock.
3. The undersigned understands that the shares of Stock are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in transactions not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, the undersigned represents that it is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.
4. The undersigned covenants and agrees, in connection with any registration of the Company's initial public offering of Common Stock, upon request of the Company or the underwriters managing such offering, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company for such period of time (not to exceed 180 days) from the effective date of the Company's registration statement filed with and declared effective by the Securities and Exchange Commission as the Company or the managing underwriters shall determine. The undersigned further covenants and agrees to enter into a customary form of "lock-up" agreement upon request of the Company or the underwriters managing such offering to the extent not inconsistent with the preceding sentence.
5. The undersigned understands the instruments evidencing the Stock may bear the following legend, in addition to any legend required by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

6. Please issue a certificate or certificates representing said shares of Stock in the name of the undersigned:

Name: _____
Address: _____

7. Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned:

Name: _____
Address: _____

IN WITNESS WHEREOF, the Warrantholder has executed this Notice of Exercise effective this ____ day of _____, ____.

WARRANTHOLDER

By: _____
Name: _____
Title: _____

[NOTICE OF EXERCISE OF STOCK PURCHASE WARRANT]

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : -----
COMPANY : PC-TEL, INC.
SECURITIES : -----
DATE : -----

In connection with the purchase of the above-listed Securities, the undersigned, the Purchaser represents to the Company the following:

(a) The undersigned is sufficiently aware of the Company's business affairs and financial condition to reach an informed and knowledgeable decision to acquire the Securities. The undersigned is purchasing these Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) The undersigned understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. In this connection, the undersigned understands that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if its representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) The undersigned further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available (such as Rule 144 under the Securities Act). Moreover, the undersigned understands that the Company is under no obligation to register the Securities. In addition, the undersigned understands that the certificate evidencing the Securities may be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) The undersigned is familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, including, among other things: (1) The availability of certain public information about the Company; (2) the resale's occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be

sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker, as said term is defined under the Securities Exchange Act of 1934 (the "Exchange Act") and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable. There can be no assurances that the requirements of Rule 144 will be met, or that the Securities will ever be saleable.

(e) The undersigned further understands that at the time the undersigned wishes to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, the undersigned would be precluded from selling the Securities under Rule 144 even if the applicable minimum holding period had been satisfied.

(f) The undersigned further understands that in the event all of the applicable requirements of Rule 144 are not satisfied registration under the Securities Act, compliance with Regulation A, compliance with some other registration exemption or the notification to the Company of the proposed disposition by it and the furnishing to the Company of (i) detailed information regarding the disposition, and (ii) an opinion of its counsel to the effect that such disposition will not require registration (the undersigned understands such counsel's opinion shall concur with the opinion by counsel for the Company and the undersigned shall have been informed of such compliance) will be required and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

By: _____
Name: _____
Title: _____

EXHIBIT C
ASSIGNMENT FORM

ASSIGNMENT FORM

(To assign the foregoing Common Stock Purchase Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

(Please Print)

whose address is

(Please Print)

Dated: _____, 19 ____

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

February 18, 1998

PC-Tel, Inc.
a California corporation

Common Stock Purchase Warrant

THIS CERTIFIES THAT, for value received, State Street Securities, Inc. (hereinafter, the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, to purchase from PC-TEL, INC., a California corporation (the "Company"), that number of fully paid and nonassessable shares of the Company's Common Stock at the purchase price per share as determined in Section 1 below.

Terms and Conditions of Warrant

1. Number of Shares; Exercise Price; Term.

(a) Subject to the terms and conditions set forth herein, the Holder is entitled to purchase from the Company, at any time after the date hereof and on or before the date of termination of this Warrant provided for in Section 1(b) below, up to 604 fully paid and non-assessable shares of the Company's Common Stock (the "Shares") at an exercise price per share of \$8.00 (the "Exercise Price").

(b) This Warrant (and the right to purchase securities upon exercise hereof) shall expire and cease to be exercisable if not exercised prior to the earliest to occur of (i) the acquisition of the Company by means of any transaction or series of related transactions (including, without limitation, any reorganization, merger, consolidation or sale of all or substantially all of the assets of the Company) in which, immediately after completion of such transaction, the shareholders of the Company prior to such transaction or series of related transactions own less than fifty percent (50%) of the voting power of the surviving entity after such transaction or series of transactions, and (ii) 5:00 p.m. (Pacific Time) on February 4, 2001 (the "Expiration Date"). The Company shall provide the Holder not less than 10 days' prior written notice of the completion of any transaction contemplated in (i) above.

2. Exercise of Warrant.

(a) This Warrant may be exercised by the Holder as to the whole or any lesser number of the Shares covered hereby, as set forth in Section 1 above, upon surrender of this Warrant to the Company at its principal executive offices together with the Notice of Exercise and Investment Representation Statement annexed hereto as Exhibits A and B, respectively, duly completed and executed by

the Holder, and payment to the Company in cash of the aggregate Exercise Price for the Shares to be purchased. Certificates for the Shares so purchased shall be delivered to the Holder within a reasonable time after exercise of the stock purchase rights represented by this Warrant. The exercise of this Warrant shall be deemed to have been effected on the day on which the Holder surrenders this Warrant to the Company and satisfies all of the requirements of this Section 2. Upon such exercise, the Holder will be deemed a shareholder of record of those Shares for which the warrant has been exercised with all rights of a shareholder (including, without limitation, all voting rights with respect to such Shares and all rights to receive any dividends with respect to such Shares). If this Warrant is to be exercised in respect of less than all of the Shares covered hereby, the Holder shall be entitled to receive a new warrant covering the number of Shares in respect of which this Warrant shall not have been exercised and for which it remains subject to exercise. Such new warrant shall be in all other respects identical to this Warrant.

(b) Notwithstanding the payment provisions set forth in Section 2(a) above, the Holder may elect to receive Shares equal to the value of this Warrant (or of any portion thereof remaining unexercised) by surrender of this Warrant at the principal office of the Company together with notice of such election, in which event the Company shall issue to the Holder that number of Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where: X = the number of Shares to be issued to the Holder;
Y = the number of Shares purchasable under this Warrant (at the date of such calculation);
A = the Fair Market Value of one Share; and
B = the Exercise Price (at the date of such calculation).

(c) For purposes of section 3(b) above, the Fair Market Value of one Share shall mean (i) if the Company's Common Stock is listed on any established stock exchange or national market system, including, without limitation, the National Market of The Nasdaq Stock Market, the closing sales price of one share of the Company's Common Stock (or the closing bid, if no sales were reported) as quoted on such system or exchange (or the exchange with the greatest volume of trading in the Company's Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board of Directors of the Company may deem reliable; (ii) if the Company's Common Stock is quoted on The Nasdaq Stock Market (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the mean between the high and low asked prices for the Company's Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other

source as the Board of Directors of the Company may deem reliable; (iii) if exercised in connection with respect to a merger or consolidation of the Company or the sale of all or substantially all of the assets of the Company, the amount of cash or the value of securities actually received by the Company or its shareholders in such transaction for each share of the Company's Common Stock; or (iv) as otherwise determined by the Board of Directors of the Company, acting in good faith.

3. Covenants of the Company. The Company covenants and agrees that all

Common Stock which may be issued upon the exercise of the rights represented by this Warrant, upon issuance and payment therefor in accordance herewith, will be duly authorized, validly issued, fully paid, and nonassessable shares of Common Stock of the Company. The Company further covenants and agrees that, during the period within which the stock purchase rights represented by this Warrant may be exercised, the Company will at all times have duly authorized and duly reserved for issuance upon the exercise of the purchase rights evidenced by this Warrant a number of shares of Common Stock sufficient for such issuance.

4. Transfer, Exchange, Assignment, or Loss of Warrant.

(a) This Warrant may not be assigned or transferred except as provided in this Section 4 and in accordance with and subject to the provisions of the Securities Act and the Rules and Regulations promulgated thereunder. Any purported transfer or assignment made other than in accordance with this Section 4 shall be null and void and of no force or effect.

(b) Prior to any transfer of this Warrant, the Holder shall notify the Company of its intention to effect such transfer, indicating the circumstances of the proposed transfer and, upon request, furnish the Company with an opinion of its counsel, in form and substance satisfactory to counsel for the Company, to the effect that the proposed transfer may be made without registration under the Securities Act or qualification under any applicable state securities laws. The Company will promptly notify the Holder if the opinion of counsel furnished to the Company is satisfactory to counsel for the Company. Unless the Company notifies the Holder within ten (10) days after its receipt of such opinion that such opinion is not satisfactory to counsel for the Company, the Holder may proceed to effect the transfer.

(c) Unless a registration statement under the Securities Act is effective with respect to the Shares or any other security issued upon exercise of this Warrant, the certificate representing such Shares or other securities shall bear the following legend, in addition to any legend imposed by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

(d) Any assignment permitted hereunder shall be made by surrender of this Warrant to the Company at its principal office with the Assignment Form attached hereto as Exhibit C duly executed. In such event, the Company shall,

without charge for any issuance or transfer tax or other cost incurred by the Company with respect to such transfer, execute and deliver a new Warrant in the name of the assignee named in such instrument of assignment, and this Warrant shall be promptly cancelled. This Warrant may be divided or combined with other Warrants which carry the same rights upon presentation thereof at the principal office of the Company, together with a written notice signed by the Holders thereof, specifying the name and denominations in which such new Warrants are to be issued.

(e) Upon receipt by the Company of satisfactory evidence of loss, theft, destruction, or mutilation of this Warrant and of indemnity satisfactory to the Company, and upon surrender and cancellation of this Warrant, if mutilated, the Company will execute and deliver a new Warrant of like tenor and date and any such lost, stolen, or destroyed Warrant shall thereupon become void. Any such new Warrant executed and delivered shall constitute an additional contractual obligation on the part of the Company, whether or not the Warrant so lost, stolen, destroyed, or mutilated shall be at any time enforceable by anyone.

5. No Fractional Shares or Scrip. No fractional shares or scrip

representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which such holder would otherwise be entitled, such holder shall be entitled, at its option, to receive either (i) a cash payment equal to the excess of the Fair Market Value for such fractional share above the Exercise Price for such fractional share (as mutually determined by the Company and the Holder) or (ii) a whole share if the Holder tenders the Exercise Price for one whole share.

6. No Rights as Shareholders. This Warrant does not entitle the holder

hereof to any voting rights, dividend rights, or other rights as a shareholder of the Company prior to the exercise hereof.

7. Saturdays, Sundays, Holidays, etc. If the last or appointed day for

the taking of any action or the expiration of any right required or granted herein shall be a Saturday or a Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday or a Sunday or a legal holiday.

8. Adjustments. The Exercise Price per Share and the number of Shares

purchasable hereunder shall be subject to adjustment from time to time as follows:

(a) Merger. If at any time there shall be a merger or consolidation

of the Company with or into another corporation when the Company is not the surviving corporation, then, as a part of such merger or consolidation, lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the aggregate Exercise Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the stock deliverable upon exercise of this Warrant would have been entitled in such merger or consolidation if this Warrant had been exercised immediately before such merger or consolidation. In any such case, appropriate adjustment shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the merger or consolidation.

(b) Reclassification, etc. If the Company shall, at any time, by

subdivision, combination, or reclassification of securities or otherwise, change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, the Exercise Price shall be adjusted such that this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such subdivision, combination, reclassification or other change.

(c) Split, Subdivision or Combination of Shares. If the Company at

any time while this Warrant remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, the Exercise Price shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

9. Notice of Adjustments; Notices. Whenever the Exercise Price or number

of Shares issuable upon exercise hereof shall be adjusted pursuant to Section 8 hereof, the Company shall issue a certificate signed by its Chief Executive Officer or Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of Shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the holder of this Warrant.

10. Miscellaneous.

(a) Successors and Assigns. This Warrant shall be binding upon any

successors or assigns of the Company.

(b) Governing Law. This Warrant shall be governed by and construed in

accordance with the laws of the State of California as applied to agreements between California residents entered and to be performed entirely within California.

(c) Attorneys' Fees. In any litigation, arbitration, or court

proceeding between the Company and the holder relating hereto, the prevailing party shall be entitled to reasonable attorneys' fees and expenses incurred in enforcing this Warrant.

(d) Amendments. This Warrant may be amended and the observance of any

term of this Warrant may be waived only with the written consent of the Company and the Holder, or in the event that this Warrant shall have been transferred in part, with the written consent of the Company and the holders of warrants representing a majority-in-interest of the Shares originally issuable hereunder.

(e) Notice. Any notice required or permitted hereunder shall be

deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by certified mail, postage prepaid and addressed to the party to be notified at the address indicated below for such party, or at such other address as such other party may designate by ten-day advance written notice.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company has caused this Common Stock Purchase Warrant to be executed by its officer thereunto duly authorized as of the date first above written.

PC-TEL, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

WARRANT HOLDER:

Signature

Print Name

Street Address

City State Zip Code

[Warrant Signature Page]

EXHIBIT A
NOTICE OF EXERCISE

NOTICE OF EXERCISE
STOCK PURCHASE WARRANT

To: PC-TEL, INC.

1. The undersigned hereby elects to purchase _____ shares of _____ ("Stock") of PC-Tel, Inc. (the "Company") pursuant to the terms of the attached Warrant, and tenders herewith payment of the aggregate exercise price therefor and any transfer taxes payable pursuant to the terms of the Warrant, together with an Investment Representation Statement in form and substance satisfactory to legal counsel to the Company.
2. The shares of Stock to be received by the undersigned upon exercise of the Warrant are being acquired for its own account, not as a nominee or agent, and not with a view to resale or distribution of any part thereof, and the undersigned has no present intention of selling, granting any participation in, or otherwise distributing the same. The undersigned further represents that it does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to the Stock. The undersigned believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Stock.
3. The undersigned understands that the shares of Stock are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in transactions not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances. In this connection, the undersigned represents that it is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.
4. The undersigned covenants and agrees, in connection with any registration of the Company's initial public offering of Common Stock, upon request of the Company or the underwriters managing such offering, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company for such period of time (not to exceed 180 days) from the effective date of the Company's registration statement filed with and declared effective by the Securities and Exchange Commission as the Company or the managing underwriters shall determine. The undersigned further covenants and agrees to enter into a customary form of "lock-up" agreement upon request of the Company or the underwriters managing such offering to the extent not inconsistent with the preceding sentence.
5. The undersigned understands the instruments evidencing the Stock may bear the following legend, in addition to any legend required by applicable state securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE BEEN ACQUIRED FOR INVESTMENT ONLY AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL, SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED.

6. Please issue a certificate or certificates representing said shares of Stock in the name of the undersigned:

Name: _____

Address: _____

7. Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned:

Name: _____

Address: _____

IN WITNESS WHEREOF, the Warrantholder has executed this Notice of Exercise effective this ____ day of _____, ____.

WARRANTHOLDER

By: _____

Name: _____

Title: _____

[NOTICE OF EXERCISE OF STOCK PURCHASE WARRANT]

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

INVESTMENT REPRESENTATION STATEMENT

PURCHASER : -----
COMPANY : PC-TEL, INC.
SECURITIES : -----
DATE : -----

In connection with the purchase of the above-listed Securities, the undersigned, the Purchaser represents to the Company the following:

(a) The undersigned is sufficiently aware of the Company's business affairs and financial condition to reach an informed and knowledgeable decision to acquire the Securities. The undersigned is purchasing these Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) The undersigned understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of its investment intent as expressed herein. In this connection, the undersigned understands that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if its representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) The undersigned further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available (such as Rule 144 under the Securities Act). Moreover, the undersigned understands that the Company is under no obligation to register the Securities. In addition, the undersigned understands that the certificate evidencing the Securities may be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) The undersigned is familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, including, among other things: (1) The availability of certain public information about the Company; (2) the resale's occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be

sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker, as said term is defined under the Securities Exchange Act of 1934 (the "Exchange Act") and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable. There can be no assurances that the requirements of Rule 144 will be met, or that the Securities will ever be saleable.

(e) The undersigned further understands that at the time the undersigned wishes to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, the undersigned would be precluded from selling the Securities under Rule 144 even if the applicable minimum holding period had been satisfied.

(f) The undersigned further understands that in the event all of the applicable requirements of Rule 144 are not satisfied registration under the Securities Act, compliance with Regulation A, compliance with some other registration exemption or the notification to the Company of the proposed disposition by it and the furnishing to the Company of (i) detailed information regarding the disposition, and (ii) an opinion of its counsel to the effect that such disposition will not require registration (the undersigned understands such counsel's opinion shall concur with the opinion by counsel for the Company and the undersigned shall have been informed of such compliance) will be required and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

By: _____
Name: _____
Title: _____

EXHIBIT C
ASSIGNMENT FORM

ASSIGNMENT FORM

(To assign the foregoing Common Stock Purchase Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

(Please Print)

whose address is

(Please Print)

Dated: _____, 19 ____.

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

PC-TEL, INC.

AMENDED AND RESTATED RIGHTS AGREEMENT

THIS AMENDED AND RESTATED RIGHTS AGREEMENT (the "Agreement") is made as of December 31, 1997 by and among PC-Tel, Inc., a California corporation (the "Company"), having its principal executive offices located at 630 Alder Drive, Suite 202, Milpitas, California 95035, and each of the persons and entities who have purchased shares of the Company's Series B Preferred Stock ("Series B Preferred") and Series C Preferred Stock ("Series C Preferred").

RECITALS

The Company and holders of the Company's Series B Preferred Stock (the "Prior Rights Holders") desire to amend and restate the Rights Agreement dated as of October 18, 1995 (the "Prior Agreement") to permit the grant of registration and other rights as described herein to purchasers of the Series C Preferred Stock of the Company.

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

SECTION 1.

Restrictions on Transferability, Registration Rights

1.1 Certain Definitions. As used in this Agreement, the following terms

shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any

successor agency.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as

amended.

"Holder" shall mean each Purchaser and any transferee of Registrable

Securities who pursuant to Section 1.15 below is entitled to registration rights hereunder.

"Holder of Series B Preferred" shall mean a Holder of shares of Series

B Preferred or shares of the Company's Common Stock issued upon the conversion of shares of Series B Preferred.

"Holder of Series C Preferred" shall mean a Holder of shares of Series

C Preferred or shares of the Company's Common Stock issued upon the conversion of shares of Series C Preferred.

"Preferred" shall mean shares of Series B Preferred and Series C

Preferred Stock of the Company.

"Purchaser" shall mean each person or entity who has acquired shares

of Preferred and any related securities pursuant to a stock purchase agreement between such person or entity and the Company and who is a signatory to this Agreement.

"Registrable Securities" shall mean (i) shares of the Company's Common

Stock issued or issuable upon the conversion of the Preferred; (ii) any Common Stock of the Company or other securities issued or issuable in respect of shares of the Preferred; (iii) any Common Stock of the Company or other securities issued or issuable upon exercise or conversion of any related securities; and (iv) shares of the Company's Common Stock or other securities issued or issuable upon any conversion of the Preferred or exercise or conversion of any related securities upon any stock split, stock dividend, recapitalization, or similar event; provided, however, that any shares described in clauses (i) through (iv)

above which have been resold to the public shall cease to be Registrable Securities upon such resale.

The terms "register," "registered" and "registration" refer to a

registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses incurred by the

Company in complying with Sections 1.5, 1.6, and 1.7 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, fees and disbursements of one special counsel to the Holders, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration but excluding all Selling Expenses.

"Restricted Securities" shall mean the securities of the Company

required to bear the legend set forth in Section 1.3 hereof (or any similar legend).

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Selling Expenses" shall mean all underwriting discounts, selling

commissions and stock transfer taxes applicable to the securities registered by the Holders and any fees of counsel to any Holder.

1.2 Restrictions on Transferability. The Restricted Securities shall not

be transferable except upon the conditions specified in this Agreement, which conditions are intended to ensure compliance with the provisions of the Securities Act. In no event shall Restricted Securities be transferred to any entity (or any affiliate thereof) which is engaged in the development, marketing or sale of products that are, in the Company's judgment, the same or similar to those of the Company, and any such attempted transfer shall be void ab initio. Each holder of Restricted Securities will cause any proposed transferee of the Restricted Securities held by such holder to agree to take and

hold such Restricted Securities subject to the provisions and upon the conditions specified in this Agreement.

1.3 Restrictive Legend. Each certificate representing (i) the Preferred,

(ii) shares of the Company's Common Stock issued upon conversion of the Preferred, and (iii) any other securities issued in respect of the Preferred (or Common Stock issued upon conversion of the Preferred) upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall (unless otherwise permitted by the provisions of Section 1.4 below) be stamped or otherwise imprinted with a legend in substantially the following form (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ACQUIRED FOR INVESTMENT AND HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER THE SECURITIES ACT. COPIES OF THE AGREEMENT COVERING THE PURCHASE OF THESE SECURITIES AND RESTRICTING THEIR TRANSFER MAY BE OBTAINED AT NO COST BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THIS CERTIFICATE TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL EXECUTIVE OFFICES.

Each Purchaser and Holder consents to the Company making a notation on its records and giving instructions to any transfer agent of the Preferred or the Common Stock in order to implement the restrictions on transfer established in this Section.

1.4 Notice of Proposed Transfers. The holder of each certificate

representing Restricted Securities by acceptance thereof agrees to comply in all respects with the provisions of this Section. Prior to any proposed transfer of any Restricted Securities, unless there is in effect a registration statement under the Securities Act covering the proposed transfer, the holder thereof shall give written notice to the Company of such Holder's intention to effect such transfer. Each such notice shall describe the manner and circumstances of the proposed transfer in sufficient detail, and shall, if the Company so requests, be accompanied by either (i) a written opinion of legal counsel, who shall be reasonably satisfactory to the Company, addressed to the Company and reasonably satisfactory in form and substance to the Company's counsel, to the effect that the Proposed transfer of the Restricted Securities may be effected without registration under the Securities Act, or (ii) a "No Action" letter from the Commission to the effect that the transfer of such securities without registration will not result in a recommendation by the staff of the Commission that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to the Company; provided, however, that no opinion or No Action letter need be obtained

with respect to a transfer to (A) a partner, active or retired, of a holder of Restricted Securities, (B) the estate of any such partner, (C) the spouse, children, grandchildren or spouse of such children or grandchildren of any holder or to trusts for the benefit of any holder or such persons, or (D) a parent or subsidiary

corporation of a holder, or a corporation which has the same parent corporation as a holder, provided that in such cases the transferee agrees in writing to be subject to the terms hereof. Each certificate evidencing the Restricted Securities transferred as above provided shall bear the appropriate restrictive legends described above, except that such certificate shall not bear any such restrictive legend if in the opinion of counsel for the Company such legend is not required.

1.5 Requested Registration.

(a) Requested for Registration. If at any time after the first to

occur of (i) November 30, 1999 or (ii) the closing of the Company's initial registered public offering, the Company shall receive from any Holder or group of Holders of Registrable Securities, representing not less than 30% of the Registrable Securities then outstanding (assuming conversion of all shares of the Preferred then outstanding), a written request that the Company effect any registration, qualification or compliance with respect to all or a part of the Registrable Securities, the anticipated gross offering price of which would exceed \$15,000,000, the Company will:

(x) promptly give written notice of the proposed registration, qualification, or compliance to all other Holders; and

(y) as soon as practicable, use its best efforts to effect, following receipt of such request, such registration, qualification or compliance (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within 15 days after receipt of such written notice from the Company; provided, however, that

the Company shall not be obligated to take any action to effect any such registration, qualification or compliance pursuant to this Section:

(A) for so long as any shares of Series C Preferred are outstanding, unless such request is first approved in writing by at least two-thirds of the shares of the then outstanding Series C Preferred;

(B) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(C) prior to 90 days immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan);

(D) after the Company has effected two (2) such registrations pursuant to this Section, such registrations have been declared or ordered effective and the securities offered pursuant to such registrations have been sold.

Subject to the foregoing clauses, the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of any Holder or Holders. If, however, the Company shall furnish to the Holder or Holders requesting a registration statement pursuant to this Section a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than 90 days after receipt of the request of the Holder or Holders requesting such registration; provided, however, that the Company may not utilize this

right more than once in any 12-month period.

(b) Underwriting. If the Holders intend to distribute the Registrable

Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request and the Company shall include such information in its written notice to the other Holders. The right of any Holder to registration pursuant to this Section shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein.

The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Holders of a majority of the Registrable Securities proposed by such Holders to be distributed through such underwriting. Notwithstanding any other provision of this Section, if the managing underwriter advises the Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then, subject to the provisions of Section 1.5(a), the Company shall so advise all Holders and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated first among all Holders of Series C Preferred requesting inclusion in the registration on a pro rata basis, and then, to the extent all such shares have not been fully allocated to the Holders of Series C Preferred, among any holders of Series B Preferred requesting inclusion in the registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities originally requested by such Holders of Series B Preferred to be included in the registration statement. No Registrable Securities excluded from the underwriting by reason of the managing underwriter's marketing limitation shall be included in such registration.

If the managing underwriter has not limited the number of Registrable Securities to be underwritten, the Company may include securities for its own account or for the account of others in such registration if the underwriter so agrees and if the number of Registrable Securities which would otherwise have been included in such registration and underwriting will not thereby be limited, and provided that the Company or the other selling shareholders shall bear an equitable share of the Registration Expenses in connection with such registration and underwriting.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the other Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration; provided, however, that if by the withdrawal of such Registrable

Securities a greater number of Registrable Securities held by other Holders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Holders who have included Registrable Securities in the registration the right to include additional Registrable Securities in the same proportion used in determining the underwriter limitation in this Section. If the registration does not become effective due to the withdrawal of Registrable Securities, then either (1) the Holders requesting registration shall reimburse the Company for expenses incurred in complying with the request, or (2) the aborted registration shall be treated as effected for purposes of Section 1.5(a)(D).

1.6 Company Registration.

(a) Notice of Registration. If the Company shall determine to

register any of its securities, either for its own account or the account of a security holder or holders exercising their respective demand registration rights, other than: (i) the Company's initial registered public offering of shares for its own account; (ii) a registration relating solely to employee benefit plans; or (iii) a registration relating solely to a transaction pursuant to Rule 145 promulgated under the Securities Act; the company will:

(x) promptly give to each Holder written notice thereof; and

(y) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 15 days after receipt of such written notice from the Company, by and Holder or Holders; provided, however, that the Company's

obligation under this Section 1.6 shall terminate after the Company has effected two (2) such registrations pursuant to which the Holders have been provided with the opportunity to register their Registrable Securities under this Section, such registrations have been declared or ordered effective and the securities offered pursuant to such registrations have been sold.

(b) Cut-back and Allocation. Notwithstanding any other provision of

this Section, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the number of Registrable Securities to be included in the registration and underwriting; provided, however, that any such limitation shall

not prevent the Holders of Registrable Securities requesting to be included in such registration from including Registrable Securities representing up to 20% of the total number of shares and provided, further, that any such limitation

shall be applied to all other selling shareholders prior to application to the Holders. In such event, the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated first among the Holders of Series C Preferred on a pro rata basis, and then, to the extent all such

shares have not been fully allocated to the Holders of Series C Preferred, to the Holders of Series B Preferred on a pro rata basis. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the managing underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

(c) The Company shall have the right to terminate or withdraw any registration initiated by it under this Section prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration.

1.7 Registration on Form S-3. The Company shall use its best efforts to

qualify for registration on Form S-3, and to that end, the Company shall comply with the reporting requirements of the Exchange Act. After the Company has qualified for the use of Form S-3, each Holder shall have the right to request an unlimited number of registrations on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended method of disposition of such shares by each such Holder), subject to the following limitations:

(i) the Company shall not be obligated to cause a registration on Form S-3 to become effective prior to 90 days following the effective date of a Company-initiated registration (other than a registration effected solely to qualify an employee benefit plan or to effect a business combination pursuant to Rule 145);

(ii) the Company shall not be obligated to cause a registration on Form S-3 to become effective prior to expiration of 90 days following the effective date of the most recent registration pursuant to a request under Section 5 of this Agreement or pursuant to a request by a holder of registration rights under any other agreement of the Company granting Form S-3 demand registration rights;

(iii) the Company shall not be required to effect a registration on Form S-3 unless the Holder or Holders requesting registration propose to dispose of shares of Registrable Securities having an aggregate disposition price (before deduction of underwriting discounts and expenses of sale) of at least \$1,000,000; and

(iv) the Company shall not be required to maintain and keep any such registration on Form S-3 effective for a period equal to the shorter of (x) 30 days, or (y) that time reasonably necessary to permit the disposition of the Registrable Securities subject to such registration. The Company shall give notice to all Holders of the receipt of a request for registration pursuant to this Section and shall provide a reasonable opportunity for all such other Holders, to participate in the registration. Subject to the foregoing, the Company will use its best efforts to effect promptly the registration of all shares of Registrable Securities on Form S-3 to the extent requested by the Holder or Holders thereof for purposes of disposition.

1.8 Expenses of Registration. All Registration Expenses incurred in

connection with any registration, qualification or compliance pursuant to Section 1.5, Section 1.6, or Section 1.7 shall be borne by the Company. All Selling Expenses relating to securities registered by the Holders shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered. Notwithstanding the foregoing, the Company shall not be required to pay for Registration Expenses pursuant to Section 1.5 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (which Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.5; provided, however, that if at the time of such withdrawal, the holders have

learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request, then the Holders shall not be required to pay any of such Registration Expenses and shall retain their rights pursuant to Section 1.5.

1.9 Registration Procedures. In the case of each registration,

qualification or compliance effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense the Company will furnish such number of prospectuses and other documents incident thereto as a Holder from time to time may reasonably request.

1.10 Termination of Registration Rights. The registration rights granted

pursuant to this Agreement shall terminate as to any Holder of less than 100,000 shares of Registrable Securities, at such time after the Company's initial public offering as the Registrable Securities held by such Holder may be sold within any three month period pursuant to Rule 144(k); and as to any Holder of 100,000 or more shares of Registrable Securities, on the third anniversary of the date on which the Company first becomes subject to the reporting requirements under Section 12 of the Securities Exchange Act of 1934, as amended.

1.11 Lock-up Agreement. In consideration for the Company agreeing to its

obligations under this Agreement, each Holder of Registrable Securities and each transferee pursuant to Section 1.15 hereof agrees (but only if each officer and director of the Company also agrees), in connection with the first registration of the Company's securities, upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as the Company or the underwriters may specify. Each Holder agrees that the Company may instruct its transfer agent to place stop-transfer notations in its records to enforce the provisions of this Section. This Section 1.11 shall supersede any conflicting provision of Section 1.5 or Section 1.7 above.

1.12 Indemnification.

(a) The Company will indemnify each Holder, each of its officers, directors and partners and such Holder's legal counsel and independent accountants, and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Act or the Exchange Act or securities act of any state or any rule or regulation thereunder, and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners and such Holder's legal counsel and independent accountants, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder or underwriter and stated to be specifically for use therein; and provided, further, that the Company will not

be liable to any such person or entity with respect to any such untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus that is corrected in the final prospectus filed with the Commission pursuant to Rule 424(b) promulgated under the Securities Act (or any amendment or supplement to such prospectus) if the person asserting any such loss, claim, damage or liability purchased securities but was not sent or given a copy of the prospectus (as amended or supplemented) at or prior to the written confirmation of the sale of such securities to such person in any case where such delivery of the prospectus (as amended or supplemented) was a result of the Company's failure to provide such prospectus (as amended or supplemented).

(b) Each Holder will, severally and not jointly, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers and its legal counsel and independent accountants, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof)

arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, legal counsel, independent accountants, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder and stated to be specifically for use therein; provided, however, that the

obligations of such Holders hereunder shall be limited to an amount equal to the proceeds, net of underwriting discounts and commissions but not expenses, to each such Holder of Registrable Securities sold as contemplated herein.

(c) Each party entitled to indemnification under this Section (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party

to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent, but only to the extent, that the Indemnifying Party's ability to defend against such claim or litigation is impaired as a result of such failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If the indemnification provided for in this Section 1.12 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. In no event shall any contribution by a Holder

under this Section 1.12(d) exceed the proceeds, net of underwriting discounts and commissions but not expenses, from the offering received by such Holder.

1.13 Information by Holder. The Holder or Holders of Registrable

Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to in this Agreement.

1.14 Rule 144 Reporting. With a view to making available the benefits of

certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, after such time as a public market exists for the Common Stock of the Company, the Company agrees to use its best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 promulgated under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) furnish to Holders upon request a written statement as to its compliance with the reporting requirements of Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Holder to sell any such securities without registration.

1.15 Transfer of Rights. Provided that the Company is given prior written

notice of such assignment, the rights granted hereunder to cause the Company to register securities may be assigned to (i) a transferee or assignee who acquires at least 50,000 shares of Registrable Securities (appropriately adjusted for stock splits, recapitalizations and like after the date hereof) and (ii) any affiliate or constituent partner of a Purchaser.

SECTION 2.

Information Rights

2.1 Financial Statements and Reports to Shareholders. The Company will

maintain true books and records of accounts in which full and correct entries will be made of all its business

transactions pursuant to a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied, and will set aside on its books all such proper accruals and reserves as shall be required under generally accepted accounting principles consistently applied. A Holder of 125,000 shares of the Company's originally issued Series C Preferred Stock shall be entitled to receive such interim financial statements as are prepared for the Company's Board of Directors. As long as a Holder of Series B Preferred (together with any affiliate thereof) or a transferee permitted under Section 1.15 hereof holds not less than 500,000 shares of the Company's originally issued Series B Preferred or Common Stock issued upon conversion thereof, or as long as a Holder of Series C Preferred (together with any affiliate thereof) or a transferee permitted under Section 1.15 hereof holds not less than 62,500 shares of the Company's originally issued Series C Preferred or Common Stock issued upon conversion thereof, the Company will deliver to such Purchasers:

(a) As soon as practicable after the end of each fiscal year of the Company, and in any event within 90 days thereafter, an audited consolidated balance sheet of the Company and its subsidiaries, if any, as of the end of such year and audited consolidated statements of income, shareholders' equity and cash flows for such year, which year-end financial reports shall be in reasonable detail prepared in accordance with generally accepted accounting procedures and shall be accompanied by the opinion of independent public accountants of recognized national standing selected by the Company; and

(b) As soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company and in any event within 45 days thereafter, (i) a consolidated balance sheet of the Company and its subsidiaries, if any, as of the end of each such quarterly period, (ii) consolidated statements of income and cash flows of the Company and its subsidiaries, if any, for such period and for the current fiscal year to date, all prepared in accordance with generally accepted accounting principles, all in reasonable detail, subject to changes resulting from year-end audit adjustments, and signed by the principal financial or accounting officer of the Company.

(c) Each Holder agrees that any information obtained by the Holder pursuant to this Section which is reasonably perceived to be proprietary to the Company or otherwise confidential will not, unless such Holder shall otherwise be required by law or the rules of any national securities exchange or association, be disclosed without the prior written consent of the Company. Each Holder further acknowledges and understands that any information will not be utilized by the Holder in connection with purchases and sales of the Company's securities except in compliance with applicable state and federal antifraud statutes.

2.2 Use of Information; Termination of Covenants. No Holder shall enter

into any transaction for the purchase or sale of any securities of the Company with any other person unless such Holder has made any material information actually obtained by such Holder pursuant to this Section 2 available to such other person. The covenants of the Company and the Holders set forth in this Section 2 shall be terminated and be of no further force or effect upon the earlier of (a) the date when a Registration Statement filed by the Company under the Securities Act, in connection with the

first public offering of its securities (other than either a public offering limited solely to employees of the Company or an offering pursuant to Rule 145 under the Securities Act) becomes effective and (b) the date the Company registers any securities under the Securities Exchange Act of 1934 (the "1934 Act"), and such covenants shall terminate as to any Holder as of the date such Holder no longer holds any shares of the capital stock of the Company.

SECTION 3.

Right of Participation

3.1 Purchasers' Right of Participation.

(a) Right of Participation. Subject to the terms and conditions

contained in this Section 3.1, the Company hereby grants to each holder of not less than 500,000 shares of the Company's originally issued Series B Preferred or Common Stock issued upon conversion thereof and each holder of Series C Preferred or Common Stock issued upon conversion thereof (each a "Major Purchaser") the right of participation to purchase its Pro Rata Portion of any New Securities (as defined in subsection 3.1(b)) which the Company may, from time to time, propose to sell and issue. A Major Purchaser's "Pro Rata Portion" for purposes of this Section 3.1 is the ratio that (x) the sum of the number of shares of the Company's Common Stock then held by such Major Purchaser and the number of shares of the Company's Common Stock issuable upon conversion of the Preferred Stock then held by such Major Holder, bears to (y) the sum of the total number of shares of the Company's Common Stock then outstanding, the number of shares of the Company's Common Stock issuable upon the exercise of any issued and outstanding rights, options or warrants, and the number of shares of the Company's Common Stock issuable upon conversion of the then outstanding Preferred Stock.

(b) Definition of New Securities. Except as set forth below, "New

Securities" shall mean any shares of capital stock of the Company, including Common Stock and Preferred Stock, whether authorized or not, and rights, options or warrants to purchase said shares of Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible into said shares of Common Stock or Preferred Stock. Notwithstanding the foregoing, "New Securities" does not include (i) the Common Shares or the Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock or any shares of Common Stock issued upon conversion thereof, (ii) securities offered to the public generally pursuant to a registration statement under the Securities Act, (iii) securities issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or shares or other reorganization whereby the Company or its shareholders own not less than a majority of the voting power of the surviving or successor corporation, (iv) shares of the Company's Common Stock or related options or warrants convertible into or exercisable for such Common Stock issued to employees, officers and directors of, and consultants to, the Company, pursuant to any arrangement approved by the Board of Directors of the Company, (v) shares of the Company's Common Stock or related options convertible into or exercisable for such Common Stock issued to banks, commercial lenders, lessors and other

financial institutions in connection with the borrowing of money or the leasing of equipment by the Company, (vi) stock issued pursuant to any rights or agreements, including, without limitation, convertible securities, options and warrants, provided that the Company shall have complied with the rights of participation established by this Section 3.1 with respect to the initial sale or grant by the Company of such rights or agreements, or (vii) stock issued in connection with any stock split, stock dividend or recapitalization by the Company.

(c) Notice of Right. In the event the Company proposes to undertake

an issuance of New Securities, it shall give each Major Purchaser written notice of its intention, describing the type of New Securities and the price and terms upon which the Company proposes to issue the same. Each Major Purchaser shall have twenty (20) days from the date of receipt of any such notice to agree to purchase shares of such New Securities (up to the amount referred to in subsection 3.1(a)), for the price and upon the terms specified in the notice, by giving written notice to the Company and stating therein the quantity of New Securities to be purchased.

(d) Exercise of Right. If any Major Purchaser exercises its right of

participation under this Agreement, the closing of the purchase of the New Securities with respect to which such right has been exercised shall take place within fifteen (15) calendar days after the Major Purchaser gives notice of such exercise, which period of time shall be extended in order to comply with applicable laws and regulations. Upon exercise of such right of participation, the Company and the Major Purchaser shall be legally obligated to consummate the purchase contemplated thereby and shall use their best efforts to secure any approvals required in connection therewith.

(e) Lapse and Reinstatement of Right. In the event a Major Purchaser

fails to exercise the right of participation provided in this Section 3.1 within said twenty (20) day period, the Company shall have ninety (90) days thereafter to sell or enter into an agreement (pursuant to which the sale of New Securities covered thereby shall be closed, if at all, within sixty (60) days from the date of said agreement) to sell the New Securities not elected to be purchased by such Major Purchaser at the price and upon the terms no more favorable to the Major Purchasers of such securities than specified in the Company's notice. In the event the Company has not sold the New Securities or entered into an agreement to sell the New Securities within said ninety (90) day period (or sold and issued New Securities in accordance with the foregoing within sixty (60) days from the date of said agreement), the Company shall not thereafter issue or sell any New Securities without first offering such securities to the Major Purchasers in the manner provided above.

(f) Assignment. The right of the Major Purchasers to purchase any

part of the New Securities may be assigned in whole or in part to any partner, subsidiary, affiliate or shareholder of a Major Purchaser, or other persons or organizations who acquire the lesser of (i) 50,000 or more shares of Restricted Securities (as adjusted for stock splits and the like) or (ii) all of the Restricted Securities then owned by such Major Purchaser.

(g) Termination of Participation Right. The rights of participation

granted under Section 3.1 of this Agreement shall terminate on and be of no further force or effect upon the earlier of (i) the consummation of the Company's sale of its Common Stock in an underwritten public

offering pursuant to an effective registration statement filed under the Securities Act immediately subsequent to which the Company shall be obligated to file annual and quarterly reports with the Commission pursuant to Section 13 or 1.5(d) of the Exchange Act or (ii) the registration by the Company of a class of its equity securities under Section 12(b) or 12(g) of the Exchange Act.

4. Governing Law. This Agreement shall be governed by and interpreted in

accordance with the laws of the State of California, without regard to choice of law provisions. The parties hereto agree to submit to the jurisdiction of the federal and state courts of the State of California with respect to the breach or interpretation of this Agreement or the enforcement of any and all rights, duties, liabilities, obligations, powers and other relations between the parties arising under this Agreement.

5. Entire Agreement. This Agreement constitutes the full and entire

understanding among the parties regarding the subject matter herein. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

6. Notices, etc. All notices and other communications required or permitted

hereunder shall be in writing and shall be deemed effectively given upon delivery to the party to be notified in person or by courier service or five (5) days after deposit with the United States mail, by registered or certified mail, postage prepaid, addressed (a) if to a holder of any Registrable Securities, to such address as such holder shall have furnished the Company in writing, or, until any such holder so furnishes an address to the company, then to and at the address of the last holder of such securities who has so furnished an address to the Company, or (b) if to the Company, to its address set forth on the first page of this Agreement and addressed to the attention of the Chief Financial Officer, or at such other address as the Company shall have furnished to the Holders in writing. If such notice requires or solicits a response from such party, the notice shall include the time limit within which the response must be received and the consequences of not responding within such time limit.

7. Amendment. Any provision of this Agreement may be amended, waived or

modified upon the written consent of (i) the Company, (ii) holders of greater than 50% of the then outstanding shares of Series B Preferred or Common Stock issued upon conversion thereof, and (iii) holders of at least 66-2/3% of the then outstanding shares of Series C Preferred or Common Stock issued upon conversion thereof. Any Holder may waive any of his or her rights or the Company's obligations hereunder without obtaining the consent of any other person.

8. Limitations on Subsequent Registration Rights. From and after the date of

this Agreement, the Company shall not enter into any agreement granting any holder or prospective holder of any securities of the Company registration rights with respect to such securities without the prior written consent of (i) the Company, (ii) holders of greater than 50% of the then outstanding shares of Series B Preferred or Common Stock issued upon conversion thereof, and (iii) holders of at least 66-2/3% of the then outstanding shares of Series C Preferred or Common Stock issued upon conversion thereof unless (1) such new registration rights, including standoff obligations, are on a pari passu basis with those

rights of the Holders hereunder, or (2) such new registration rights, including standoff obligations, are subordinate to the registration rights granted the Holders

hereunder; provided, however, that the inclusion of such holder's securities

shall not reduce the amount of Registrable Securities which are included in any registration for which the Holders hold registration rights pursuant to this Agreement.

9. Supersession of Prior Agreement. This Agreement shall supersede in its

entirety that certain Prior Agreement. By execution of this Agreement, each party to the Prior Agreement waives any rights of first refusal it may otherwise have had under Section 4 of the Prior Agreement (including any rights to prior notice) with respect to the Company's sale of up to 1,500,000 shares of its Series C Preferred Stock pursuant to that certain Series C Preferred Stock Purchase Agreement dated on or around the date hereof. This Agreement shall be effective at such time as Holders representing a majority in interest of the Series B Preferred Stock outstanding at the date of this Agreement shall have executed and delivered a signed counterpart of this Agreement.

10. Counterparts. This Agreement may be executed in any number of

counterparts, each of which shall be an original and all of which together shall constitute one instrument.

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" AZTECH SYSTEMS LTD

(name of entity)

By: /s/ Michael Mun

(signature)

Michael Mun

(print name)

President/CEO

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" WK Technology Fund

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

"PRIOR RIGHTS HOLDERS" WK Technology Fund

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" WK Technology Fund II

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

"PRIOR RIGHTS HOLDERS" WK Technology Fund II

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" WK Technology Fund III

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

"PRIOR RIGHTS HOLDERS" WK Technology Fund III

(name of entity)

By: /s/ Wen Chung Ko

(signature)

Wen Chung Ko

(print name)

Chairman

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" POWER WORLD FUND, INC.

(name of entity)

By: /s/ Dr. Frank Huang

(signature)

Dr. Frank Huang

(print name)

Chairman

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" E-Tech, Inc.

(name of entity)

By: /s/ Young-Lim Su

(signature)

Young-Lim Su

(print name)

Senior Vice President

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" DYNALINK INTERNATIONAL CORP.

(name of entity)

By: /s/ Sing Long Du

(signature)

SING LONG DU

(print name)

Director

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Sing-Long Du

(signature)

Sing-Long Du

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: /s/ Sing-Long Du

(signature)

/s/ Sing-Long Du

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Cheng Kuei Lin

(signature)

Cheng Kuei Lin

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: /s/ Cheng Kuei Lin

(signature)

Cheng Kuei Lin

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" /s/ Chin-Ting Chiou

(name of entity)

By: /s/ Chin-Ting Chiou

(signature)

Chin-Ting Chiou

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: /s/ Chin-Ting Chiou

(signature)

Chin-Ting Chiou

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" /s/ Shih Luen Liu

(name of entity)

By: /s/ Shih Luen Liu

(signature)
Shih Luen Liu

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: /s/ Shih Luen Liu

(signature)
SHIH LUEN LIU

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Lai Wang Shu Hsia

(signature)

Lai Wang Shu Hsia

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Jeang Jiann-Cherng

(signature)

Jeang Jiann-Cherng

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: /s/ Jeang Jiann-Cherng

(signature)

Jeang Jiann-Cherng

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" Norman Basmajian

(name of entity)

By: /s/ Norman Basmajian

(signature)

Norman Basmajian

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Barbara A. Campbell

(signature)

Barbara A. Campbell

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: -----
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Alan Carlson

(signature)

Alan Carlson

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Abraham Chu

(signature)

Abraham Chu

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" GANATERRA CORPORATION N.V.

(name of entity)

By: /s/ Russell S. Melina

(signature)

Russell S. Melina

(print name)

Attorney - in - Fact

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Gerald T. Kennedy

(signature)

Gerald T. Kennedy

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ William C. Hardy

(signature)

William C. Hardy

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED" LEYCORP, INC.

(name of entity)

By: /s/ G.A. Leyendecker

(signature)

G.A. Leyendecker

(print name)

President

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Mark A. Martin

(signature)

Mark A. Martin

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Gaylen D. Miller/ Glenna R. Miller

(signature)

Gaylen D. Miller/ Glenna R. Miller

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Robert Moody

(signature)

Robert Moody

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ William C. Ossie

(signature)

William C. Ossie

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ James R. Ridings

(signature)

James R. Ridings

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: _____
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Robert L. Rosenthal

(signature)

Robert L. Rosenthal

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: _____
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Gregory D. Pikul

(signature)

Gregory D. Pikul

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: _____
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Fernando Savati

(signature)

Fernando Savati

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ James L. Schulze

(signature)

James L. Schulze

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: _____
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Benet Stenbeck

(signature)

Benet Stenbeck

(print name)

President

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By:

(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Quentin Villa

(signature)

Quentin Villa

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: -----
(signature)

(print name)

(title)

[AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Registration Rights Agreement as of the date set forth above.

"COMPANY" PC-TEL, INC.
A California corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PURCHASERS OF SERIES C PREFERRED"

(name of entity)

By: /s/ Kirk A. Woloszyn

(signature)

Kirk A. Woloszyn

(print name)

(title)

"PRIOR RIGHTS HOLDERS"

(name of entity)

By: _____
(signature)

(print name)

(title)

PC-TEL, INC.

ADDENDUM TO AMENDED AND RESTATED RIGHTS AGREEMENT

This Addendum (the "Addendum") to the Amended and Restated Rights Agreement dated December 31, 1997 (the "Rights Agreement") is made as of February 1, 1999 by and between PC-Tel, Inc., a Delaware corporation (the "Company") and PFF Bank and Trust, Inc., a California corporation ("PFF").

RECITALS

WHEREAS, in consideration for a loan to the Company, the Company has issued PFF a warrant to purchase 10,000 shares of Series C Preferred Stock of the Company at \$8.00 per share ("Warrant")

WHEREAS, in addition to the Warrant, the Company has agreed to grant PFF certain registration and other rights.

WHEREAS, the Company and holders of the Company's Series B Preferred Stock and Series C Preferred Stock (the "Prior Rights Holders") previously entered into the Rights Agreement.

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. The Company agrees to grant PFF those rights as set forth in the Rights Agreement as attached as Exhibit A, under all of the terms and conditions

of the Rights Agreement.
2. In accordance with Section 8 of the Rights Agreement, the registration rights granted to PFF are on a pari passu basis with the rights of the Prior Rights Holders. Should the underwriters impose a limit to the number of Registrable Securities (as defined in the Rights Agreement) that may be included in a registration statement, PFF's registration rights shall be subordinate to the registration rights granted to the Prior Rights Holders.
3. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one instrument.

[ADDENDUM TO AMENDED AND RESTATED RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A Delaware corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PFF"

PFF Bank & Trust

(name of entity)

By: /s/ Kenneth O. Wentzel

(signature)

/s/ Kenneth O. Wentzel

(print name)

Vice President

(title)

PC-TEL, INC.

ADDENDUM TO AMENDED AND RESTATED RIGHTS AGREEMENT

This Addendum (the "Addendum") to the Amended and Restated Rights Agreement dated December 31, 1997 (the "Rights Agreement") is made as of February 1, 1999 by and between PC-Tel, Inc., a Delaware corporation (the "Company") and Pentech Financial Services, Inc., a California corporation ("Pentech").

RECITALS

WHEREAS, in consideration for financial services rendered, the Company has issued Pentech a warrant to purchase 190,000 shares of Series C Preferred Stock of the Company at \$8.00 per share ("Warrant")

WHEREAS, in addition to the Warrant, the Company has agreed to grant Pentech certain registration and other rights.

WHEREAS, the Company and holders of the Company's Series B Preferred Stock and Series C Preferred Stock (the "Prior Rights Holders") previously entered into the Rights Agreement.

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. The Company agrees to grant Pentech those rights as set forth in the Rights Agreement as attached as Exhibit A, under all of the terms and conditions

of the Rights Agreement.

2. In accordance with Section 8 of the Rights Agreement, the registration rights granted to Pentech are on a pari passu basis with the rights of the Prior Rights Holders. Should the underwriters impose a limit to the number of Registrable Securities (as defined in the Rights Agreement) that may be included in a registration statement, Pentech's registration rights shall be subordinate to the registration rights granted to the Prior Rights Holders.

3. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one instrument.

[ADDENDUM TO AMENDED AND RESTATED RIGHTS AGREEMENT]

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date set forth above.

"COMPANY"

PC-TEL, INC.
A Delaware corporation

By: /s/ Peter Chen

Peter Chen, President &
Chief Executive Officer

"PENTECH"

Pentech Financial Services, Inc.

(name of entity)

By: /s/ Benjamin E. Millerbis

(signature)

Benjamin E. Millerbis

(print name)

President & CEO

(title)

PC-TEL, INC.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("Agreement") is effective as of _____, 1999, by and between PC-Tel, Inc., a Delaware corporation (the "Company"), and _____ ("Indemnitee").

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company and its related entities;

WHEREAS, in order to induce Indemnitee to continue to provide services to the Company, the Company wishes to provide for the indemnification of, and advancement of expenses to, Indemnitee to the maximum extent permitted by law;

WHEREAS, Indemnitee does not regard the current protection available as adequate under the present circumstances, and the Indemnitee and other directors, officers, employees, agents and fiduciaries of the Company may not be willing to continue to serve in such capacities without additional protection;

WHEREAS, the Company and Indemnitee recognize the continued difficulty in obtaining liability insurance for the Company's directors, officers, employees, agents and fiduciaries, the significant increases in the cost of such insurance and the general reductions in the coverage of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited; and

WHEREAS, in view of the considerations set forth above, the Company desires that Indemnitee shall be indemnified by the Company as set forth herein;

NOW, THEREFORE, the Company and Indemnitee hereby agree as set forth below.

1. Certain Definitions.

(a) "Change in Control" shall mean, and shall be deemed to have occurred if, on or after the date of this Agreement, (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more

than 50% of the total voting power represented by the Company's then outstanding Voting Securities, (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of related transactions) all or substantially all of the Company's assets.

(b) "Claim" shall mean any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any hearing, inquiry or investigation that Indemnatee in good faith believes might lead to the institution of any such action, suit, proceeding or alternative dispute resolution mechanism, whether civil, criminal, administrative, investigative or other.

(c) References to the "Company" shall include, in addition to PC-Tel, Inc., any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which PC-Tel, Inc. (or any of its wholly owned subsidiaries) is a party which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, agents or fiduciaries, so that if Indemnatee is or was a director, officer, employee, agent or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, Indemnatee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnatee would have with respect to such constituent corporation if its separate existence had continued.

(d) "Expenses" shall mean any and all expenses (including attorneys' fees and all other costs, expenses and obligations incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, to be a witness in or to participate in, any action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation), judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) of any Claim regarding any Indemnifiable Event and any federal, state, local or foreign taxes imposed on the Indemnatee as a result of the actual or deemed receipt of any payments under this Agreement.

(e) "Expense Advance" shall mean an advance payment of Expenses to Indemnatee pursuant to Section 3(a).

(f) "Indemnifiable Event" shall mean any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or any subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of Indemnitee while serving in such capacity.

(g) "Independent Legal Counsel" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 2(c) hereof, who shall not have otherwise performed services for the Company or Indemnitee within the last three years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).

(h) References to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on Indemnitee with respect to an employee benefit plan; and references to "serving at the request of the Company" shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or its beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

(i) "Reviewing Party" shall mean any appropriate person or body consisting of a member or members of the Company's Board of Directors or any other person or body appointed by the Board of Directors who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or Independent Legal Counsel.

(j) "Voting Securities" shall mean any securities of the Company that vote generally in the election of directors.

2. Indemnification.

(a) Indemnification of Expenses. The Company shall indemnify

Indemnitee to the fullest extent permitted by law if Indemnitee was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any Claim by reason of (or arising in part out of) any Indemnifiable Event against Expenses, including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses. Such payment of Expenses shall be made by the Company as soon as practicable but in any event no later than five (5) business days after written demand by Indemnitee therefor is presented to the Company.

(b) Reviewing Party. Notwithstanding the foregoing, (i) the

obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in Section 2(c) hereof is involved) that Indemnitee would not be permitted to be indemnified under

applicable law, and (ii) the obligation of the Company to make an Expense Advance shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnatee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnatee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnatee has commenced or

thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnatee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnatee would not be permitted to be indemnified under applicable law shall not be binding and Indemnatee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnatee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnatee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnatee shall have the right to commence litigation seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Absent such litigation, any determination by the Reviewing Party shall be conclusive and binding on the Company and Indemnatee.

(c) Change in Control. The Company agrees that if there is a Change

in Control of the Company (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), then with respect to all matters thereafter arising concerning the rights of Indemnatee to payments of Expenses and Expense Advances under this Agreement or any other agreement or under the Company's Certificate of Incorporation or Bylaws as now or hereafter in effect, Independent Legal Counsel, if desired by Indemnatee, shall be selected by Indemnatee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnatee as to whether and to what extent Indemnatee would be permitted to be indemnified under applicable law and the Company agrees to abide by such opinion. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to indemnify fully such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. Notwithstanding any other provision of this Agreement, the Company shall not be required to pay Expenses of more than one Independent Legal Counsel in connection with all matters concerning a single Indemnatee, and such Independent Legal Counsel shall be the Independent Legal Counsel for any or all other Indemnitees unless (i) the Company otherwise determines or (ii) any Indemnatee shall provide a written statement setting forth in detail a reasonable objection to such Independent Legal Counsel representing other Indemnitees.

(d) Mandatory Payment of Expenses. Notwithstanding any other

provision of this Agreement other than Section 10 hereof, to the extent that Indemnatee has been successful on the

merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in defense of any Claim regarding any Indemnifiable Event, Indemnatee shall be indemnified against all Expenses incurred by Indemnatee in connection therewith.

3. Expenses; Indemnification Procedure.

(a) Advancement of Expenses. The Company shall advance all Expenses incurred by Indemnatee. The advances to be made hereunder shall be paid by the Company to Indemnatee as soon as practicable but in any event no later than five (5) business days after written demand by Indemnatee therefor to the Company. Expenses incurred in defending any proceeding may be advanced by the Company prior to the final disposition of the proceeding upon receipt of an undertaking by or on behalf of Indemnatee to repay the Expenses incurred, if it shall be determined ultimately that Indemnatee is not entitled to be indemnified.

(b) Notice/Cooperation by Indemnatee. Indemnatee shall, as a condition precedent to Indemnatee's right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any Claim made against Indemnatee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnatee). In addition, Indemnatee shall give the Company such information and cooperation as it may reasonably require and as shall be within Indemnatee's power.

(c) No Presumptions; Burden of Proof. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnatee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnatee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnatee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnatee to secure a judicial determination that Indemnatee should be indemnified under applicable law, shall be a defense to Indemnatee's claim or create a presumption that Indemnatee has not met any particular standard of conduct or did not have any particular belief.

(d) Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim pursuant to Section 3(b) hereof, the Company has liability insurance in effect which may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnatee, all amounts payable as a result of such Claim in accordance with the terms of such policies.

(e) Selection of Counsel. In the event the Company shall be obligated hereunder to pay the Expenses of any Claim the Company, if appropriate, shall be entitled to assume the

defense of such Claim with counsel approved by Indemnatee (not to be unreasonably withheld) upon the delivery to Indemnatee of written notice of the Company's election so to do. After delivery of such notice, approval of such counsel by Indemnatee and the retention of such counsel by the Company, the Company will not be liable to Indemnatee under this Agreement for any fees of counsel subsequently incurred by Indemnatee with respect to the same Claim; provided that, (i) Indemnatee shall have the right to employ Indemnatee's separate counsel in any such Claim at Indemnatee's expense and (ii) if (A) the employment of separate counsel by Indemnatee has been previously authorized by the Company, (B) Indemnatee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnatee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Indemnatee's separate counsel shall be at the expense of the Company.

4. Additional Indemnification Rights; Nonexclusivity.

(a) Scope. The Company hereby agrees to indemnify the Indemnatee to

the fullest extent permitted by law, notwithstanding that such indemnification is not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, agent or fiduciary, it is the intent of the parties hereto that Indemnatee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder except as set forth in Section 9(a) hereof.

(b) Nonexclusivity. The indemnification provided by this Agreement

shall be in addition to any rights to which Indemnatee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any other agreement, any vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware, or otherwise. The indemnification provided under this Agreement shall continue as to Indemnatee for any action taken or not taken while serving in an indemnified capacity even though Indemnatee may have ceased to serve in such capacity.

5. No Duplication of Payments. The Company shall not be liable under this

Agreement to make any payment in connection with any Claim made against Indemnatee to the extent Indemnatee has otherwise actually received payment (under any insurance policy, provision of the Company's Certificate of Incorporation, bylaw or otherwise) of the amounts otherwise indemnifiable hereunder.

6. Partial Indemnification. If Indemnatee is entitled under any provision

of this Agreement to indemnification by the Company for some or a portion of Expenses incurred in connection with any Claim, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnatee for the portion of such Expenses to which Indemnatee is entitled.

7. Mutual Acknowledgment. Both the Company and Indemnitee acknowledge

that in certain instances, federal law or applicable public policy may prohibit the Company from indemnifying its directors, officers, employees, agents or fiduciaries under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

8. Liability Insurance. To the extent the Company maintains liability

insurance applicable to directors, officers, employees, agents or fiduciaries, Indemnitee shall be covered by such policies in such a manner as to provide Indemnitee the same rights and benefits as are provided to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, agents or fiduciaries, if Indemnitee is not an officer or director but is a key employee, agent or fiduciary.

9. Exceptions. Notwithstanding any other provision of this Agreement, the

Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Action or Omissions. To indemnify Indemnitee for acts,

omissions or transactions from which Indemnitee may not be relieved of liability under applicable law.

(b) Claims Initiated by Indemnitee. To indemnify or advance expenses

to Indemnitee with respect to Claims initiated or brought voluntarily by Indemnitee and not by way of defense, except (i) with respect to actions or proceedings brought to establish or enforce a right to indemnification under this Agreement or any other agreement or insurance policy or under the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events, (ii) in specific cases if the Board of Directors has approved the initiation or bringing of such Claim, or (iii) as otherwise required under Section 145 of the Delaware General Corporation Law, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

(c) Lack of Good Faith. To indemnify Indemnitee for any expenses

incurred by the Indemnitee with respect to any proceeding instituted by Indemnitee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous.

(d) Claims Under Section 16(b). To indemnify Indemnitee for expenses

and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. Period of Limitations. No legal action shall be brought and no cause

of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such

two-year period; provided, however, that if any shorter period of limitations is

otherwise applicable to any such cause of action, such shorter period shall
govern.

11. Counterparts. This Agreement may be executed in one or more

counterparts, each of which shall constitute an original.

12. Binding Effect; Successors and Assigns. This Agreement shall be

binding upon and inure to the benefit of and be enforceable by the parties
hereto and their respective successors, assigns (including any direct or
indirect successor by purchase, merger, consolidation or otherwise to all or
substantially all of the business or assets of the Company), spouses, heirs and
personal and legal representatives. The Company shall require and cause any
successor (whether direct or indirect, and whether by purchase, merger,
consolidation or otherwise) to all, substantially all, or a substantial part, of
the business or assets of the Company, by written agreement in form and
substance satisfactory to Indemnatee, expressly to assume and agree to perform
this Agreement in the same manner and to the same extent that the Company would
be required to perform if no such succession had taken place. This Agreement
shall continue in effect regardless of whether Indemnatee continues to serve as
a director, officer, employee, agent or fiduciary (as applicable) of the Company
or of any other enterprise at the Company's request.

13. Attorneys' Fees. In the event that any action is instituted by

Indemnatee under this Agreement or under any liability insurance policies
maintained by the Company to enforce or interpret any of the terms hereof or
thereof, Indemnatee shall be entitled to be paid all Expenses incurred by
Indemnatee with respect to such action, regardless of whether Indemnatee is
ultimately successful in such action, and shall be entitled to the advancement
of Expenses with respect to such action, unless as a part of such action a court
of competent jurisdiction over such action determines that each of the material
assertions made by Indemnatee as a basis for such action were not made in good
faith or were frivolous. In the event of an action instituted by or in the name
of the Company under this Agreement to enforce or interpret any of the terms of
this Agreement, Indemnatee shall be entitled to be paid all Expenses incurred by
Indemnatee in defense of such action (including costs and expenses incurred with
respect to Indemnatee's counterclaims and cross-claims made in such action), and
shall be entitled to the advancement of Expenses with respect to such action,
unless as a part of such action a court having jurisdiction over such action
determines that each of Indemnatee's material defenses to such action were made
in bad faith or were frivolous.

14. Notice. All notices, requests, demands and other communications under

this Agreement shall be in writing and shall be deemed duly given (i) if
delivered by hand and signed for by the party addressed, on the date of such
delivery, or (ii) if mailed by domestic certified or registered mail with
postage prepaid, on the third business day after the date postmarked. Addresses
for notice to either party are as shown on the signature page of this Agreement,
or as subsequently modified by written notice.

15. Consent to Jurisdiction. The Company and Indemnatee each hereby

irrevocably consent to the jurisdiction of the courts of the State of Delaware
for all purposes in connection with any action or proceeding which arises out of
or relates to this Agreement and agree that any action instituted under this
Agreement shall be commenced, prosecuted and continued only in the Court of

Chancery of the State of Delaware in and for New Castle County, which shall be the exclusive and only proper forum for adjudicating such a claim.

16. Severability. The provisions of this Agreement shall be severable in

the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. Choice of Law. This Agreement shall be governed by and its provisions

construed and enforced in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents entered into and to be performed entirely within the State of Delaware.

18. Subrogation. In the event of payment under this Agreement, the Company

shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

19. Amendment and Termination. No amendment, modification, termination or

cancellation of this Agreement shall be effective unless it is in writing signed by both the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

20. Integration and Entire Agreement. This Agreement sets forth the entire

understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

21. No Construction as Employment Agreement. Nothing contained in this

Agreement shall be construed as giving Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries or affiliated entities.

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement as of the date first above written.

PC-TEL, INC.

By: _____

Title: _____

Address: 70 Rio Robles Drive
San Jose, CA 95134
(408) 965-2194

AGREED TO AND ACCEPTED

INDEMNITEE:

(signature)

(name of Indemnatee)

(address)

PC-TEL, INC.

1995 STOCK PLAN

1. Purposes of the Plan. The purposes of this Stock Plan are to attract and

 retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be incentive stock options (as defined under Section 422 of the Code) or non-statutory stock options, as determined by the Administrator at the time of grant of an option and subject to the applicable provisions of Section 422 of the Code, as amended, and the regulations promulgated thereunder.

2. Definitions. As used herein, the following definitions shall apply:

 (a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

 (b) "Board" means the Board of Directors of the Company.

 (c) "Code" means the Internal Revenue Code of 1986, as amended.

 (d) "Committee" means a Committee appointed by the Board of Directors in accordance with Section 4 of the Plan.

 (e) "Common Stock" means the Common Stock of the Company.

 (f) "Company" means PC-Tel, Inc., a California corporation.

 (g) "Consultant" means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary to render services and is compensated for such services, and any director of the Company whether compensated for such services or not provided that if and in the event the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include directors who are not compensated for their services or are paid only a director's fee by the Company.

 (h) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship is not interrupted or terminated by the Company, any Parent or Subsidiary. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) any leave of absence approved by the Company, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, any such leave may not exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; provided, further, that on the ninety-first day of any such leave (where reemployment is not guaranteed by contract or statute) the Optionee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor

 (i) "Employee" means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

 (j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

 (k) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

 (i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sales

price for such stock (or the closing bid, if no sales were reported, as quoted on such exchange or system for the last market trading day prior to the time of determination) as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator

(l) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(m) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(n) "Option" means a stock option granted pursuant to the Plan.

(o) "Optioned Stock" means the Common Stock subject to an Option.

(p) "Optionee" means an Employee or Consultant who receives an Option.

(q) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(r) "Plan" means this 1995 Stock Option Plan.

(s) "Share" means a share of the Common Stock, as adjusted in accordance with Section 11 below.

(t) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares which may be optioned and sold under the Plan is 4,800,000 shares of Common Stock. The shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a committee appointed by the Board.

(b) Plan Procedure After the Date. if any, Upon Which the Company Becomes Subject to the Exchange Act.

(i) Administration With Respect to Directors and Officers. With respect to grants of Options to Employees who are also officers or directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") with respect to a plan intended to qualify thereunder as a discretionary plan, or (B) a committee designated by the Board to administer the Plan, which committee shall be constituted in such a manner as to permit the Plan to comply with Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan. Once appointed, such Committee shall continue to

* Adjust to "3,200,000" pursuant to 3 to 2 reverse stock split effect date Oct. 4, 1995.

serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan

(ii) Multiple Administrative Bodies. If permitted by Rule 16b-3, the

Plan may be administered by different bodies with respect to directors, non-director officers and Employees who are neither directors nor officers.

(iii) Administration With Respect to Consultants and Other Employees.

With respect to grants of Options to Employees or Consultants who are neither directors nor officers of the Company, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of state corporate and securities laws, of the Code, and of any applicable stock exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Administrator. Subject to the provisions of the Plan and in

the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any stock exchange upon which the Common Stock is listed, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(k) of the Plan;

(ii) to select the Consultants and Employees to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(0) instead of Common Stock

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted; and

(ix) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(d) Effect of Administrator's Decision. All decisions, determinations and

interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options.

5. Eligibility.

(a) Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option may, if otherwise eligible, be granted additional Options.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options.

(c) For purposes of Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(d) The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of -----
its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 17 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 13 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the -----
Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) promissory note,

(4) other Shares which (x) in the case of Shares acquired upon exercise of an Option either have been owned by the Optionee for more than six months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (5) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted

hereunder shall be exercisable at such times and under such conditions as determined by the Board, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment. In the event of termination of an Optionee's

Continuous Status as an Employee or Consultant with the Company (but not in the event of a change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option on the ninety-first (91st) day following such change of status) or from Consultant to Employee), such Optionee may, but only within such period of time as is determined by the Administrator, of at least thirty (30) days, with such determination in the case of an Incentive Stock Option not exceeding three (3) months after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of such termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. Notwithstanding the provisions of Section 9(b)

above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of termination of an Optionee's Continuous

Status as an Employee or Consultant as a result of the death of an Optionee, the Option may be exercised, at any time within twelve

(12) months following the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee was entitled to exercise the Option at the date of death. To the extent that Optionee was not entitled to exercise the Option at the date of death, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(e) Rule 16b-3. Options granted to persons subject to Section 16(b) of the

Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for

a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Non-Transferability of Options. Options may not be sold, pledged,

assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Adjustments Upon Changes in Capitalization or Merger.

(a) Changes in Capitalization. Subject to any required action by the

shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or

liquidation of the Company, the Board shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

(c) Merger. In the event of a merger of the Company with or into another

corporation, the Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If, in such event, the Option is not assumed or substituted, the Option shall terminate as of the date of the closing of the merger. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger, the option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger, the consideration (whether stock, cash, or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

12. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined by the Board. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

13. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. Agreements. Options shall be evidenced by written agreements in such form as the Board shall approve from time to time.

17. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange upon which the Common Stock is listed.

18. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquired Shares pursuant to the Plan, during the period such Optionee or purchaser has one or more Options outstanding, and, in the case of an individual who acquired Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

PC-TEL, Inc.
Stock Option Agreement

PC-TEL, INC.
1995 STOCK PLAN
STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

- - - - -

You have been granted an option to purchase Common Stock of PC-Tel, Inc., a California corporation (the "Company"), subject to the terms and conditions of the Plan and this Option Agreement, as follows:

| | |
|--------------------------------|-------------------------------|
| Grant Number | ----- |
| Date of Grant | ----- |
| Vesting Commencement Date | ----- |
| Exercise Price per Share | \$----- |
| Total Number of Shares Granted | ----- |
| Total Exercise Price | \$----- |
| Type of Option: | ----Incentive Stock Option |
| | ----Nonstatutory Stock Option |
| Term/Expiration Date: | ----- |

Vesting Schedule: This Option may be exercised, in whole or in part, in

accordance with the following schedule:

12/48ths of the Shares subject to the Option will vest twelve (12) months after the Vesting Commencement Date, and an additional 1/48th of the Shares subject to the option will vest at the end of each month thereafter

Termination Period: This Option may be exercised for 90 days after

termination of employment or consulting relationship, or such longer period as may be applicable upon death or Disability of Optionee as provided in the Plan, but in no event later than the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. PC-Tel, Inc., a California corporation (the

"Company"), hereby grants to the Optionee named in the Notice of Grant (the "Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price") subject to the terms, definitions and provisions of the 1995 Stock Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated in the Notice of Grant as an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock option.

2. Exercise of Option. This Option shall be exercisable during its

term in accordance with the Exercise Schedule set out in the Notice of Grant and with the provisions of Section 9 of the Plan as follows:

(i) Right to Exercise.

(a) This Option may not be exercised for a fraction of a share.

(b) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in subsection 2(i)(c).

(c) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.

(ii) Method of Exercise. This Option shall be exercisable by

written notice (in the form attached as Exhibit A) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares purchasable

pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his Investment Representation Statement in the form attached hereto as Exhibit B, and shall read the applicable rules of the Commissioner of Corporations attached to such Investment Representation Statement, if applicable.

4. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(i) cash; or

(ii) check; or

(iii) surrender of other shares of Common Stock of the Company which (A) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (B) have a fair market value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price.

5. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Termination of Relationship. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate

7. Disability of Optionee. Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of termination of employment (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise the Option to the extent otherwise so entitled at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

8. Death of Optionee. In the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of the death of Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent the Optionee could exercise the Option at the date of death.

9. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. Term of Option. This Option may be exercised only within the term set

out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option. The limitations set out in Section 7 of the Plan regarding Options designated as Incentive Stock Options and Options granted to more than ten percent (10%) shareholders shall apply to this Option.

11. Taxation Upon Exercise of Option. Optionee understands that, upon

exercising a nonstatutory Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares over the exercise price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). If the Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, the Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. The Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option out of Optionee's compensation or by payment to the Company.

12. Tax Consequences. Set forth below is a brief summary as of the date of

this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THIS SUMMARY ALSO DOES NOT PURPORT TO DISCUSS ANY STATE TAX CONSEQUENCE AT ALL. OPTIONEE IS ADVISED TO CONSULT HIS OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(i) Exercise of ISO. If this Option qualifies as an ISO, there will be

no regular federal income tax liability or income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(ii) Exercise of Nonstatutory Stock Option. There may be a regular

federal income tax liability upon the exercise of a Nonstatutory Stock Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(iii) Disposition of Shares. In the case of an NSO, if Shares are

held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within such one-year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (1) the fair market value of the Shares on the date of exercise, or (2) the sale price of the Shares.

(iv) Notice of Disqualifying Disposition of ISO Shares. If the Option

granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

- --signature page to Stock Option Agreement--

PC-Tel, Inc.
a California corporation

By: _____

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH HIS RIGHT OR THE COMPANY'S RIGHT TO TERMINATE HIS EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Date: _____
Optionee

EXHIBIT A

1995 STOCK PLAN

EXERCISE NOTICE

PC-Tel, Inc.

- - - - -
- - - - -

Attention: Chief Financial Officer

1. Exercise of Option. Effective as of today, _____, 19____, the
undersigned ("Optionee") hereby elects to exercise Optionee's option to purchase
_____ shares of the Common Stock (the "Shares") of PC-Tel, Inc. (the "Company") under
and pursuant to the 1995 Stock Plan, as amended (the "Plan") and the []
Incentive [] Nonstatutory Stock Option Agreement dated _____
(the "Option Agreement").

2. Representations of Optionee. Optionee acknowledges that Optionee has
received, read and understood the Plan and the Option Agreement and agrees to
abide by and be bound by their terms and conditions.

3. Rights as Shareholder. Until the stock certificate evidencing such
Shares is issued (as evidenced by the appropriate entry on the books of the
Company or of a duly authorized transfer agent of the Company), no right to vote
or receive dividends or any other rights as a shareholder shall exist with
respect to the optioned Stock, notwithstanding the exercise of the Option. The
Company shall issue (or cause to be issued) such stock certificate promptly
after the Option is exercised. No adjustment will be made for a dividend or
other right for which the record date is prior to the date the stock certificate
is issued, except as provided in Section 12 of the Plan. Thereafter, Optionee
shall enjoy rights as a shareholder until such time as Optionee disposes of the
Shares.

4. Company's Right of First Refusal. Not applicable. No right of first
refusal shall arise under this Agreement, and any reference to this Section 4 or
to any such rights elsewhere in this Agreement should be disregarded.

5. Tax Consultation. Optionee understands that Optionee may suffer adverse
tax consequences as a result of Optionee's purchase or disposition of the
Shares. Optionee represents that Optionee has consulted with any tax consultants
Optionee deems advisable in connection with the purchase or disposition of the
Shares and that Optionee is not relying on the Company for any tax advice.

6. Restrictive Legends and Stop-Transfer Orders

(a) Legends. Optionee understands and agrees that the Company shall
cause the legends set forth below or legends substantially equivalent thereto,
to be placed upon any certificate(s) evidencing ownership of the Shares together
with any other legends that may be required by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS ARE BINDING ON TRANSFEREES OF THESE SHARES.

If applicable: IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES

Optionee understands that transfer of the Shares may be restricted by Section 260.141.11 of the Rules of the California Corporations Commissioner, a copy of which is attached to Exhibit B, the Investment Representation Statement.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure

compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to

transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

7. Successors and Assigns. The Company may assign any of its rights under

this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

8. Interpretation. Any dispute regarding the interpretation of this

Agreement shall be submitted by Optionee or by the Company forthwith to the Company's Board of Directors or the committee thereof that administers the Plan, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board or committee shall be final and binding on the Company and on Optionee.

9. Governing Law; Severability. This Agreement shall be governed by and

construed in accordance with the laws of the State of California excluding that body of law pertaining to conflicts of

PC-TEL, Inc.
Stock Option Agreement

law. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

10. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

11. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

12. Delivery of Payment. Optionee herewith delivers to the Company the full Exercise Price for the Shares.

13. Entire Agreement. The Plan and Notice of Grant/Option Agreement are incorporated herein by reference. This Agreement, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and is governed by California law except for that body of law pertaining to conflict of laws.

Submitted by:

Accepted by:

OPTIONEE:

PC-Tel, Inc.
a California corporation

By:

Its:

(Signature)

Address:

Address:

EXHIBIT B

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE :
COMPANY : PC-TEL, INC.
SECURITY : COMMON STOCK
AMOUNT :
DATE :

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the securities. Optionee is acquiring these securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

(b) Optionee acknowledges and understands that the securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the securities. Optionee understands that the certificate evidencing the securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel satisfactory to the Company, a legend prohibiting their transfer without the consent of the Commissioner of Corporations of the State of California (if so required) and any other legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. in the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such longer period as any market stand-off agreement may require) the securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

PC-TEL, Inc.
Stock Option Agreement

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than two years after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than three years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee hereby agrees that if so requested by the Company or any representative of the underwriters in connection with any registration of the offering of any securities of the Company under the 1933 Act, Optionee shall not sell or otherwise transfer any Shares or other securities of the Company during the 180-day period following the effective date of a registration statement of the Company filed under the 1933 Act; provided, however, that such restriction shall only apply to the first registration statement of the Company to become effective under the 1933 Act which include securities to be sold on behalf of the Company to the public in an underwritten public offering under the 1933 Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such 180-day period.

(e) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

(f) Optionee understands that the certificate evidencing the Securities may (if so required) be imprinted with a legend which prohibits the transfer of the Securities without the consent of the Commissioner of Corporations of California. Optionee has read the applicable Commissioner's Rules with respect to such restriction, a copy of which is attached.

Signature of Optionee:

Date: _____, 19

ATTACHMENT 1

STATE OF CALIFORNIA- CALIFORNIA ADMINISTRATIVE CODE
Title 10. Investment- Chapter 3. Commissioner of Corporations

260.141.11: Restriction on Transfer.

(a) The issuer of any security upon which a restriction on transfer has been imposed pursuant to Sections 260.102.6, 260.141.10 or 260.534 shall cause a copy of this section to be delivered to each issuee or transferee of such security at the time the certificate evidencing the security is delivered to the issuee or transferee.

(b) It is unlawful for the holder of any such security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

- (1) to the issuer;
- (2) pursuant to the order or process of any court;
- (3) to any person described in Subdivision (i) of Section 25102 of the Code or Section 260.105.14 of these rules;
- (4) to the transferor's ancestors, descendants or spouse, or any custodian or trustee for the account of the transferrer or the transferrer's ancestors, descendants, or spouse; or to a transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;
- (5) to holders of securities of the same class of the same issuer;
- (6) by way of gift or donation inter vivos or on death;
- (7) by or through a broker-dealer licensed under the Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;
- (8) to a broker-dealer licensed under the Code in a principal transaction, or as an underwriter or member of an underwriting syndicate or selling group;
- (9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;
- (10) by way of a sale qualified under Sections 25111, 25112, 25113 or 25121 of the Code, of the securities to be transferred, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualification;
- (11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to such corporation;
- (12) by way of an exchange qualified under Section 25111, 25112 or 25113 of the Code, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualification;
- (13) between residents of foreign states, territories or countries who are neither domiciled nor actually present in this state;
- (14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state; or
- (15) by the State Controller pursuant to the Unclaimed Property Law or by the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii) delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;
- (16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities;
- (17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Code but exempt from that qualification requirement by subdivision (f) of Section 25102;

provided that any such transfer is on the condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section.

(c) The certificates representing all such securities subject to such a restriction on transfer, whether upon initial issuance or upon any transfer thereof, shall bear on their face a legend, prominently stamped or printed thereon in capital letters of not less than 10-point size, reading as follows:

"IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA. EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES."

PC-TEL, INC.

1997 STOCK PLAN

(as amended and restated, August 3, 1999)

1. Purposes of the Plan. The purposes of this Stock Plan are:

- . to attract and retain the best available personnel for positions of substantial responsibility,
- . to provide additional incentive to Employees, Directors and Consultants, and
- . to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U. S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the common stock of the Company.

(g) "Company" means PC-Tel, Inc., a Delaware corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in

Section 22(e)(3) of the Code.

(k) "Employee" means any person, including Officers and Directors,

employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. For purposes of Incentive Stock Options, no such leave may exceed ninety days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as

amended.

(m) "Fair Market Value" means, as of any date, the value of Common

Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Gnostic SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Incentive Stock Option" means an Option intended to qualify as

an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(o) "Nonstatutory Stock Option" means an Option not intended to

qualify as an Incentive Stock Option.

(p) "Notice of Grant" means a written or electronic notice evidencing

certain terms and conditions of an individual Option or Stock Purchase Right grant. The Notice of Grant is part of the Option Agreement.

(q) "Officer" means a person who is an officer of the Company within

the meaning of Section 16 of the Exchange Act and the rules and regulations
promulgated thereunder.

(r) "Option" means a stock option granted pursuant to the Plan.

(s) "Option Agreement" means an agreement between the Company and an

Optionee evidencing the terms and conditions of an individual Option grant. The
Option Agreement is subject to the terms and conditions of the Plan.

(t) "Option Exchange Program" means a program whereby outstanding

Options are surrendered in exchange for Options with a lower exercise price.

(u) "Optioned Stock" means the Common Stock subject to an Option or

Stock Purchase Right.

(v) "Optionee" means the holder of an outstanding Option or Stock

Purchase Right granted under the Plan.

(w) "Parent" means a "parent corporation," whether now or hereafter

existing, as defined in Section 424(e) of the Code.

(x) "Plan" means this 1997 Stock Plan, as amended and restated.

(y) "Restricted Stock" means shares of Common Stock acquired pursuant

to a grant of Stock Purchase Rights under Section 11 of the Plan.

(z) "Restricted Stock Purchase Agreement" means a written agreement

between the Company and the Optionee evidencing the terms and restrictions
applying to stock purchased under a Stock Purchase Right. The Restricted Stock
Purchase Agreement is subject to the terms and conditions of the Plan and the
Notice of Grant.

(aa) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any

successor to Rule 16b-3, as in effect when discretion is being exercised with
respect to the Plan.

(bb) "Section 16(b)" means Section 16(b) of the Exchange Act.

(cc) "Service Provider" means an Employee, Director or Consultant.

(dd) "Share" means a share of the Common Stock, as adjusted in

accordance with Section 13 of the Plan.

(ee) "Stock Purchase Right" means the right to purchase Common Stock

pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

(ff) "Subsidiary" means a "subsidiary corporation", whether now or

hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of

the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 5,500,000 Shares, plus an annual increase to be added on the first day of the Company's fiscal year equal to the lesser of (i) 700,000 Shares, (ii) 4% of the outstanding shares on such date or (iii) a lesser amount determined by the Board. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated); provided, however, that Shares that have actually been issued under

the Plan, whether upon exercise of an Option or Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be

administered by different Committees with respect to different groups of Service Providers.

(ii) Section 162(m). To the extent that the Administrator

determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify

transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the

Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the

Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Options and Stock Purchase Rights may be granted hereunder;

(iii) to determine the number of shares of Common Stock to be covered by each Option and Stock Purchase Right granted hereunder;

(iv) to approve forms of agreement for use under the Plan;

(v) to determine the terms and conditions, not inconsistent

with the terms of the Plan, of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to reduce the exercise price of any Option or Stock

Purchase Right to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option or Stock Purchase Right shall have declined since the date the Option or Stock Purchase Right was granted;

(vii) to institute an Option Exchange Program;

(viii) to construe and interpret the terms of the Plan and awards

granted pursuant to the Plan;

(ix) to prescribe, amend and rescind rules and regulations

relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option or Stock Purchase Right

(subject to Section 15(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(xi) to allow Optionees to satisfy withholding tax obligations

by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) to authorize any person to execute on behalf of the

Company any instrument required to effect the grant of an Option or Stock Purchase Right previously granted by the Administrator;

(xiii) to make all other determinations deemed necessary or

advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's

decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options or Stock Purchase Rights.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may

be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Neither the Plan nor any Option or Stock Purchase Right shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options:

(i) No Service Provider shall be granted, in any fiscal year of the Company, Options to purchase more than 300,000 Shares.

(ii) In connection with his or her initial service, a Service Provider may be granted Options to purchase up to an additional 300,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 13.

(iv) If an Option is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 13), the canceled Option will be counted against the limits set forth in subsections (i) and (ii) above. For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

7. Term of Plan. Subject to Section 19 of the Plan, the Plan shall become

effective upon its adoption by the Board. It shall continue in effect until 2007 years unless terminated earlier under Section 15 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Option

Agreement. In the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Option Agreement. Moreover, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock

Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a merger or other corporate transaction.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and

(B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option

granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be tolled during any unpaid leave of absence. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives:

(i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee

ceases to be a Service Provider, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the

Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(c) Disability of Optionee. If an Optionee ceases to be a Service

Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider,

the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy

out for a payment in cash or Shares an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either

alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid, and the time within which the offeree must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise,

the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at a rate determined by the Administrator.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall

contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Shareholder. Once the Stock Purchase Right is

exercised, the purchaser shall have the rights equivalent to those of a shareholder, and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Non-Transferability of Options and Stock Purchase Rights. Unless

determined otherwise by the Administrator, an Option or Stock Purchase Right may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right shall contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments Upon Changes in Capitalization, Dissolution, Merger or

Asset Sale.

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(a) Changes in Capitalization. Subject to any required action by the

shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option and Stock Purchase Right, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed

dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option or Stock Purchase Right shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option or Stock Purchase Right will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company

with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option or Stock Purchase Right, the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option or Stock Purchase Right shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

14. Date of Grant. The date of grant of an Option or Stock Purchase Right

shall be, for all purposes, the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend,

alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Company shall obtain shareholder

approval of any Plan amendment to the extent necessary and desirable to comply
with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration,

suspension or termination of the Plan shall impair the rights of any Optionee,
unless mutually agreed otherwise between the Optionee and the Administrator,
which agreement must be in writing and signed by the Optionee and the Company.
Termination of the Plan shall not affect the Administrator's ability to exercise
the powers granted to it hereunder with respect to Options granted under the
Plan prior to the date of such termination.

16. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the

exercise of an Option or Stock Purchase Right unless the exercise of such Option
or Stock Purchase Right and the issuance and delivery of such Shares shall
comply with Applicable Laws and shall be further subject to the approval of
counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an

Option or Stock Purchase Right, the Company may require the person exercising
such Option or Stock Purchase Right to represent and warrant at the time of any
such exercise that the Shares are being purchased only for investment and
without any present intention to sell or distribute such Shares if, in the
opinion of counsel for the Company, such a representation is required.

(c) Inability to Obtain Authority. The inability of the Company to

obtain authority from any regulatory body having jurisdiction, which authority
is deemed by the Company's counsel to be necessary to the lawful issuance and
sale of any Shares hereunder, shall relieve the Company of any liability in
respect of the failure to issue or sell such Shares as to which such requisite
authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, will

at all times reserve and keep available such number of Shares as shall be
sufficient to satisfy the requirements of the Plan.

18. Shareholder Approval. The Plan shall be subject to approval by the

shareholders of the Company within twelve (12) months after the date the Plan is
adopted. Such shareholder approval shall be obtained in the manner and to the
degree required under Applicable Laws.

1997 STOCK PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

[Optionee's Name and Address]

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

| | |
|--------------------------------|---|
| Grant Number | _____ |
| Date of Grant | _____ |
| Vesting Commencement Date | _____ |
| Exercise Price per Share | \$_____ |
| Total Number of Shares Granted | _____ |
| Total Exercise Price | \$_____ |
| Type of Option: | <input type="checkbox"/> Incentive Stock Option <input type="checkbox"/> Nonstatutory Stock Option |
| Term/Expiration Date: | _____ |

Vesting Schedule:

This Option may be exercised, in whole or in part, in accordance with the following schedule:

25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/48 of the Shares subject to the Option shall vest each month thereafter, subject to the Optionee continuing to be a Service Provider on such dates.

Termination Period:

This Option may be exercised for three (3) months after Optionee ceases to be a Service Provider. Upon the death or Disability of the Optionee, this Option may be exercised for one year after Optionee ceases to be a Service Provider. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants

Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to [Title] of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash; or

(b) check; or

(c) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(d) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares; or

(e) with the Administrator's consent, delivery of Optionee's promissory note (the "Note") in the form attached hereto as Exhibit C, in the amount of the aggregate Exercise Price of the Exercised Shares together with the execution and delivery by the Optionee of the Security Agreement attached hereto as Exhibit B. The Note shall bear interest at the "applicable federal rate" prescribed under the Code and its regulations at time of purchase, and shall be secured by a pledge of the Shares purchased by the Note pursuant to the Security Agreement.

4. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Tax Consequences. Some of the federal tax consequences relating to this Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercising the Option.

(i) Nonstatutory Stock Option. The Optionee may incur regular federal income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(ii) Incentive Stock Option. If this Option qualifies as an ISO, the Optionee will have no regular federal income tax liability upon its exercise, although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise. In the event that the Optionee ceases to be an Employee but remains a Service Provider, any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock

Option and will be treated for tax purposes as a Nonstatutory Stock Option on the date three (3) months and one (1) day following such change of status.

(b) Disposition of Shares.

(i) NSO. If the Optionee holds NSO Shares for at least one

year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

(ii) ISO. If the Optionee holds ISO Shares for at least one

year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price. Any additional gain will be taxed as capital gain, short-term or long-term depending on the period that the ISO Shares were held.

(c) Notice of Disqualifying Disposition of ISO Shares. If the

Optionee sells or otherwise disposes of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current earnings paid to the Optionee.

7. Entire Agreement; Governing Law. The Plan is incorporated herein by

reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of Delaware.

8. NO GUARANTEE OF CONTINUED SERVICE. OPTIONEE ACKNOWLEDGES AND AGREES

THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE: PC-TEL, INC.

| | |
|-------------------|-----------|
| - ----- | - ----- |
| Signature | By |
| - ----- | - ----- |
| Print | NameTitle |
| - ----- | |
| Residence Address | |
| - ----- | |

CONSENT OF SPOUSE

The undersigned spouse of Optionee has read and hereby approves the terms and conditions of the Plan and this Option Agreement. In consideration of the Company's granting his or her spouse the right to purchase Shares as set forth in the Plan and this Option Agreement, the undersigned hereby agrees to be irrevocably bound by the terms and conditions of the Plan and this Option Agreement and further agrees that any community property interest shall be similarly bound. The undersigned hereby appoints the undersigned's spouse as attorney-in-fact for the undersigned with respect to any amendment or exercise of rights under the Plan or this Option Agreement.

Spouse of Optionee

EXHIBIT A

1997 STOCK PLAN

EXERCISE NOTICE

PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

Attention: [Title]

1. Exercise of Option. Effective as of today, _____, 199__,

the undersigned ("Purchaser") hereby elects to purchase _____ shares (the "Shares") of, as amended and restated the Common Stock of PC-Tel, Inc. (the "Company") under and pursuant to the 1997 Stock Plan (the "Plan") and the Stock Option Agreement dated, 19__ (the "Option Agreement"). The purchase price for the Shares shall be \$, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the

full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser

has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the

appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in [Section 13] of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer

adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are

incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing

signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of Delaware.

Submitted by: Accepted by:
PURCHASER: PC-TEL, INC.

- - - - -
Signature By

- - - - -
Print Name Its

Address: Address:
- - - - -

- - - - - 630 Alder Drive, Suite 202
- - - - - Milpitas, CA 95035

- - - - -
Date Received

EXHIBIT B

SECURITY AGREEMENT

This Security Agreement is made as of _____, 19__ between PC-Tel, Inc., a Delaware corporation ("Pledgee"), and _____ ("Pledgor").

Recitals

Pursuant to Pledgor's election to purchase Shares under the Option Agreement dated _____ (the "Option"), between Pledgor and Pledgee under Pledgee's 1997 Stock Plan, as amended and restated, and Pledgor's election under the terms of the Option to pay for such shares with his promissory note (the "Note"), Pledgor has purchased _____ shares of Pledgee's Common Stock (the "Shares") at a price of \$_____ per share, for a total purchase price of \$_____. The Note and the obligations thereunder are as set forth in Exhibit C to the Option.

NOW, THEREFORE, it is agreed as follows:

1. Creation and Description of Security Interest. In consideration of the transfer of the Shares to Pledgor under the Option Agreement, Pledgor, pursuant to the [state] Commercial Code, hereby pledges all of such Shares (herein sometimes referred to as the "Collateral") represented by certificate number _____, duly endorsed in blank or with executed stock powers, and herewith delivers said certificate to the Secretary of Pledgee ("Pledgeholder"), who shall hold said certificate subject to the terms and conditions of this Security Agreement.

The pledged stock (together with an executed blank stock assignment for use in transferring all or a portion of the Shares to Pledgee if, as and when required pursuant to this Security Agreement) shall be held by the Pledgeholder as security for the repayment of the Note, and any extensions or renewals thereof, to be executed by Pledgor pursuant to the terms of the Option, and the Pledgeholder shall not encumber or dispose of such Shares except in accordance with the provisions of this Security Agreement.

2. Pledgor's Representations and Covenants. To induce Pledgee to enter into this Security Agreement, Pledgor represents and covenants to Pledgee, its successors and assigns, as follows:

a. Payment of Indebtedness. Pledgor will pay the principal sum of _____ the Note secured hereby, together with interest thereon, at the time and in the manner provided in the Note.

b. Encumbrances. The Shares are free of all other encumbrances, _____ defenses and liens, and Pledgor will not further encumber the Shares without the prior written consent of Pledgee.

c. Margin Regulations. In the event that Pledgee's Common Stock is _____ now or later becomes margin-listed by the Federal Reserve Board and Pledgee is classified as a "lender" within the meaning of the regulations under Part 207 of Title 12 of the Code of Federal Regulations

("Regulation G"), Pledgor agrees to cooperate with Pledgee in making any amendments to the Note or providing any additional collateral as may be necessary to comply with such regulations.

3. Voting Rights. During the term of this pledge and so long as all

payments of principal and interest are made as they become due under the terms of the Note, Pledgor shall have the right to vote all of the Shares pledged hereunder.

4. Stock Adjustments. In the event that during the term of the pledge any

stock dividend, reclassification, readjustment or other changes are declared or made in the capital structure of Pledgee, all new, substituted and additional shares or other securities issued by reason of any such change shall be delivered to and held by the Pledgee under the terms of this Security Agreement in the same manner as the Shares originally pledged hereunder. In the event of substitution of such securities, Pledgor, Pledgee and Pledgeholder shall cooperate and execute such documents as are reasonable so as to provide for the substitution of such Collateral and, upon such substitution, references to "Shares" in this Security Agreement shall include the substituted shares of capital stock of Pledgor as a result thereof.

5. Options and Rights. In the event that, during the term of this pledge,

subscription Options or other rights or options shall be issued in connection with the pledged Shares, such rights, Options and options shall be the property of Pledgor and, if exercised by Pledgor, all new stock or other securities so acquired by Pledgor as it relates to the pledged Shares then held by Pledgeholder shall be immediately delivered to Pledgeholder, to be held under the terms of this Security Agreement in the same manner as the Shares pledged.

6. Default. Pledgor shall be deemed to be in default of the Note and of

this Security Agreement in the event:

a. Payment of principal or interest on the Note shall be delinquent for a period of 10 days or more; or

b. Pledgor fails to perform any of the covenants set forth in the Option or contained in this Security Agreement for a period of 10 days after written notice thereof from Pledgee.

In the case of an event of Default, as set forth above, Pledgee shall have the right to accelerate payment of the Note upon notice to Pledgor, and Pledgee shall thereafter be entitled to pursue its remedies under the Delaware Commercial Code.

7. Release of Collateral. Subject to any applicable contrary rules under

Regulation G, there shall be released from this pledge a portion of the pledged Shares held by Pledgeholder hereunder upon payments of the principal of the Note. The number of the pledged Shares which shall be released shall be that number of full Shares which bears the same proportion to the initial number of Shares pledged hereunder as the payment of principal bears to the initial full principal amount of the Note.

8. Withdrawal or Substitution of Collateral. Pledgor shall not sell,

withdraw, pledge, substitute or otherwise dispose of all or any part of the
Collateral without the prior written consent of Pledgee.
9. Term. The within pledge of Shares shall continue until the payment of

all indebtedness secured hereby, at which time the remaining pledged stock shall
be promptly delivered to Pledgor, subject to the provisions for prior release of
a portion of the Collateral as provided in paragraph 7 above.
10. Insolvency. Pledgor agrees that if a bankruptcy or insolvency

proceeding is instituted by or against it, or if a receiver is appointed for the
property of Pledgor, or if Pledgor makes an assignment for the benefit of
creditors, the entire amount unpaid on the Note shall become immediately due and
payable, and Pledgee may proceed as provided in the case of default.
11. Pledgeholder Liability. In the absence of willful or gross negligence,

Pledgeholder shall not be liable to any party for any of his acts, or omissions
to act, as Pledgeholder.
12. Invalidity of Particular Provisions. Pledgor and Pledgee agree that

the enforceability or invalidity of any provision or provisions of this Security
Agreement shall not render any other provision or provisions herein contained
unenforceable or invalid.
13. Successors or Assigns. Pledgor and Pledgee agree that all of the terms

of this Security Agreement shall be binding on their respective successors and
assigns, and that the term "Pledgor" and the term "Pledgee" as used herein shall
be deemed to include, for all purposes, the respective designees, successors,
assigns, heirs, executors and administrators.
14. Governing Law. This Security Agreement shall be interpreted and

governed under the internal substantive laws, but not the choice of law rules,
of Delaware.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

PLEDGOR

Signature

Print Name
Address: -----

PLEDGEE
PC-Tel, Inc.
a Delaware corporation

Signature

Print Name

Title

PLEDGEHOLDER

Secretary of PC-Tel, Inc.
-4-

EXHIBIT C

NOTE

\$ _____

Milpitas, California

_____, 19__

FOR VALUE RECEIVED, _____ promises to pay to PC-Tel, Inc., a Delaware corporation (the "Company"), or order, the principal sum of _____ (\$ _____), together with interest on the unpaid principal hereof from the date hereof at the rate of _____ percent (____%) per annum, compounded semiannually.

Principal and interest shall be due and payable on _____, 19__. Payment of principal and interest shall be made in lawful money of the United States of America.

The undersigned may at any time prepay all or any portion of the principal or interest owing hereunder.

This Note is subject to the terms of the Option, dated as of _____. This Note is secured in part by a pledge of the Company's Common Stock under the terms of a Security Agreement of even date herewith and is subject to all the provisions thereof.

The holder of this Note shall have full recourse against the undersigned, and shall not be required to proceed against the collateral securing this Note in the event of default.

In the event the undersigned shall cease to be an employee, director or consultant of the Company for any reason, this Note shall, at the option of the Company, be accelerated, and the whole unpaid balance on this Note of principal and accrued interest shall be immediately due and payable.

Should any action be instituted for the collection of this Note, the reasonable costs and attorneys' fees therein of the holder shall be paid by the undersigned.

1997 STOCK PLAN

NOTICE OF GRANT OF STOCK PURCHASE RIGHT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice of Grant.

[Grantee's Name and Address]

You have been granted the right to purchase Common Stock of the Company, subject to the Company's Repurchase Option and your ongoing status as a Service Provider (as described in the Plan and the attached Restricted Stock Purchase Agreement), as follows:

| | |
|---|---------|
| Grant Number | _____ |
| Date of Grant | _____ |
| Price Per Share | \$_____ |
| Total Number of Shares Subject to This Stock Purchase Right | _____ |
| Expiration Date: | _____ |

YOU MUST EXERCISE THIS STOCK PURCHASE RIGHT BEFORE THE EXPIRATION DATE OR IT WILL TERMINATE AND YOU WILL HAVE NO FURTHER RIGHT TO PURCHASE THE SHARES. By your signature and the signature of the Company's representative below, you and the Company agree that this Stock Purchase Right is granted under and governed by the terms and conditions of the 1997 Stock Plan and the Restricted Stock Purchase Agreement, attached hereto as Exhibit A-1, both of which are made a part of this document. You further agree to execute the attached Restricted Stock Purchase Agreement as a condition to purchasing any shares under this Stock Purchase Right.

| | |
|----------|--------------|
| GRANTEE: | PC-TEL, INC. |
|----------|--------------|

| | |
|-----------|-----------|
| - - - - - | - - - - - |
| Signature | By |

| | |
|------------|-----------|
| - - - - - | - - - - - |
| Print Name | Title |

EXHIBIT A-1

1997 STOCK PLAN

RESTRICTED STOCK PURCHASE AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Purchase Agreement.

WHEREAS the Purchaser named in the Notice of Grant, (the "Purchaser") is an Service Provider, and the Purchaser's continued participation is considered by the Company to be important for the Company's continued growth; and

WHEREAS in order to give the Purchaser an opportunity to acquire an equity interest in the Company as an incentive for the Purchaser to participate in the affairs of the Company, the Administrator has granted to the Purchaser a Stock Purchase Right subject to the terms and conditions of the Plan and the Notice of Grant, which are incorporated herein by reference, and pursuant to this Restricted Stock Purchase Agreement (the "Agreement").

NOW THEREFORE, the parties agree as follows:

1. Sale of Stock. The Company hereby agrees to sell to the Purchaser and

the Purchaser hereby agrees to purchase shares of the Company's Common Stock (the "Shares"), at the per Share purchase price and as otherwise described in the Notice of Grant.

2. Payment of Purchase Price. The purchase price for the Shares may be

paid by delivery to the Company at the time of execution of this Agreement of cash, a check, or some combination thereof.

3. Repurchase Option.

(a) In the event the Purchaser ceases to be a Service Provider for any or no reason (including death or disability) before all of the Shares are released from the Company's Repurchase Option (see Section 4), the Company shall, upon the date of such termination (as reasonably fixed and determined by the Company) have an irrevocable, exclusive option (the "Repurchase Option") for a period of sixty (60) days from such date to repurchase up to that number of shares which constitute the Unreleased Shares (as defined in Section 4) at the original purchase price per share (the "Repurchase Price"). The Repurchase Option shall be exercised by the Company by delivering written notice to the Purchaser or the Purchaser's executor (with a copy to the Escrow Holder) AND, at the Company's option, (i) by delivering to the Purchaser or the Purchaser's executor a check in the amount of the aggregate Repurchase Price, or (ii) by cancelling an amount of the Purchaser's indebtedness to the Company equal to the aggregate Repurchase Price, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of indebtedness equals the aggregate Repurchase Price. Upon delivery of such notice and the payment of the aggregate Repurchase Price, the Company shall become the legal and beneficial owner of the Shares being repurchased and all

rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Shares being repurchased by the Company.

(b) Whenever the Company shall have the right to repurchase Shares hereunder, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations to exercise all or a part of the Company's purchase rights under this Agreement and purchase all or a part of such Shares. If the Fair Market Value of the Shares to be repurchased on the date of such designation or assignment (the "Repurchase FMV") exceeds the aggregate Repurchase Price of such Shares, then each such designee or assignee shall pay the Company cash equal to the difference between the Repurchase FMV and the aggregate Repurchase Price of such Shares.

4. Release of Shares From Repurchase Option.

(a) _____ percent (____%) of the Shares shall be released from the Company's Repurchase Option [one year] after the Date of Grant and _____ percent (____%) of the Shares [at the end of each month thereafter], provided that the Purchaser does not cease to be a Service Provider prior to the date of any such release.

(b) Any of the Shares that have not yet been released from the Repurchase Option are referred to herein as "Unreleased Shares."

(c) The Shares that have been released from the Repurchase Option shall be delivered to the Purchaser at the Purchaser's request (see Section 6).

5. Restriction on Transfer. Except for the escrow described in Section 6

or the transfer of the Shares to the Company or its assignees contemplated by this Agreement, none of the Shares or any beneficial interest therein shall be transferred, encumbered or otherwise disposed of in any way until such Shares are released from the Company's Repurchase Option in accordance with the provisions of this Agreement, other than by will or the laws of descent and distribution.

6. Escrow of Shares.

(a) To ensure the availability for delivery of the Purchaser's Unreleased Shares upon repurchase by the Company pursuant to the Repurchase Option, the Purchaser shall, upon execution of this Agreement, deliver and deposit with an escrow holder designated by the Company (the "Escrow Holder") the share certificates representing the Unreleased Shares, together with the stock assignment duly endorsed in blank, attached hereto as Exhibit A-2. The Unreleased Shares and stock assignment shall be held by the Escrow Holder, pursuant to the Joint Escrow Instructions of the Company and Purchaser attached hereto as Exhibit A-3, until such time as the Company's Repurchase Option expires. As a further condition to the Company's obligations under this Agreement, the Company may require the spouse of Purchaser, if any, to execute and deliver to the Company the Consent of Spouse attached hereto as Exhibit A-4.

(b) The Escrow Holder shall not be liable for any act it may do or omit to do with respect to holding the Unreleased Shares in escrow while acting in good faith and in the exercise of its judgment.

(c) If the Company or any assignee exercises the Repurchase Option hereunder, the Escrow Holder, upon receipt of written notice of such exercise from the proposed transferee, shall take all steps necessary to accomplish such transfer.

(d) When the Repurchase Option has been exercised or expires unexercised or a portion of the Shares has been released from the Repurchase Option, upon request the Escrow Holder shall promptly cause a new certificate to be issued for the released Shares and shall deliver the certificate to the Company or the Purchaser, as the case may be.

(e) Subject to the terms hereof, the Purchaser shall have all the rights of a shareholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon. If, from time to time during the term of the Repurchase Option, there is (i) any stock dividend, stock split or other change in the Shares, or (ii) any merger or sale of all or substantially all of the assets or other acquisition of the Company, any and all new, substituted or additional securities to which the Purchaser is entitled by reason of the Purchaser's ownership of the Shares shall be immediately subject to this escrow, deposited with the Escrow Holder and included thereafter as "Shares" for purposes of this Agreement and the Repurchase Option.

7. Legends. The share certificate evidencing the Shares, if any, issued

hereunder shall be endorsed with the following legend (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN
RESTRICTIONS UPON TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT
BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE
SECRETARY OF THE COMPANY.

8. Adjustment for Stock Split. All references to the number of Shares and

the purchase price of the Shares in this Agreement shall be appropriately
adjusted to reflect any stock split, stock dividend or other change in the
Shares which may be made by the Company after the date of this Agreement.

9. Tax Consequences. The Purchaser has reviewed with the Purchaser's own

tax advisors the federal, state, local and foreign tax consequences of this
investment and the transactions contemplated by this Agreement. The Purchaser is
relying solely on such advisors and not on any statements or representations of
the Company or any of its agents. The Purchaser understands that the Purchaser
(and not the Company) shall be responsible for the Purchaser's own tax liability
that may arise as a result of the transactions contemplated by this Agreement.
The Purchaser understands that Section 83 of the Internal Revenue Code of 1986,
as amended (the "Code"), taxes as ordinary income the difference between the
purchase price for the Shares and the Fair Market Value of the Shares as of the
date any restrictions on the Shares lapse. In this context, "restriction"
includes the

right of the Company to buy back the Shares pursuant to the Repurchase Option. The Purchaser understands that the Purchaser may elect to be taxed at the time the Shares are purchased rather than when and as the Repurchase Option expires by filing an election under Section 83(b) of the Code with the IRS within 30 days from the date of purchase. The form for making this election is attached as Exhibit A-5 hereto.

THE PURCHASER ACKNOWLEDGES THAT IT IS THE PURCHASER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b), EVEN IF THE PURCHASER REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PURCHASER'S BEHALF.

10. General Provisions.

(a) This Agreement shall be governed by the internal substantive laws, but not the choice of law rules of Delaware. This Agreement, subject to the terms and conditions of the Plan and the Notice of Grant, represents the entire agreement between the parties with respect to the purchase of the Shares by the Purchaser. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan shall prevail. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

(b) Any notice, demand or request required or permitted to be given by either the Company or the Purchaser pursuant to the terms of this Agreement shall be in writing and shall be deemed given when delivered personally or deposited in the U.S. mail, First Class with postage prepaid, and addressed to the parties at the addresses of the parties set forth at the end of this Agreement or such other address as a party may request by notifying the other in writing.

Any notice to the Escrow Holder shall be sent to the Company's address with a copy to the other party hereto.

(c) The rights of the Company under this Agreement shall be transferable to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of the Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

(d) Either party's failure to enforce any provision of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of this Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to it.

(e) The Purchaser agrees upon request to execute any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

(f) PURCHASER ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO SECTION 4 HEREOF IS EARNED ONLY BY CONTINUING

SERVICE AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED OR PURCHASING SHARES HEREUNDER). PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH PURCHASER'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE PURCHASER'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By Purchaser's signature below, Purchaser represents that he or she is familiar with the terms and provisions of the Plan, and hereby accepts this Agreement subject to all of the terms and provisions thereof. Purchaser has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of this Agreement. Purchaser agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Agreement. Purchaser further agrees to notify the Company upon any change in the residence indicated in the Notice of Grant.

DATED: _____

PURCHASER: PC-TEL, INC.

Signature By

Print Name Title

EXHIBIT A-2

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED I, _____, hereby sell, assign and transfer unto _____ (_____) shares of the Common Stock of PC-Tel, Inc. standing in my name of the books of said corporation represented by Certificate No. _____ herewith and do hereby irrevocably constitute and appoint _____ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Purchase Agreement (the "Agreement") between _____ and the undersigned dated _____, 19__.

Dated: _____, 19__

Signature: _____

INSTRUCTIONS: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise the Repurchase Option, as set forth in the Agreement, without requiring additional signatures on the part of the Purchaser.

JOINT ESCROW INSTRUCTIONS

_____, 19__

Corporate Secretary
PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

Dear _____:

As Escrow Agent for both PC-Tel, Inc., a Delaware corporation (the "Company"), and the undersigned purchaser of stock of the Company (the "Purchaser"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Purchase Agreement ("Agreement") between the Company and the undersigned, in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively as the "Company") exercises the Company's Repurchase Option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver same, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's Repurchase Option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a shareholder of the Company while the stock is held by you.

4. Upon written request of the Purchaser, but no more than once per calendar year, unless the Company's Repurchase Option has been exercised, you shall deliver to Purchaser a certificate or certificates representing so many shares of stock as are not then subject to the Company's Repurchase Option. Within 90 days after Purchaser ceases to be a Service Provider, you shall deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's Repurchase Option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law, and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the statute of limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

COMPANY: PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

PURCHASER: -----

ESCROW AGENT: Corporate Secretary
PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by, and construed and enforced in accordance with, the internal substantive laws, but not the choice of law rules, of Delaware.

Very truly yours,
PC-TEL, INC.

By

Title

PURCHASER:

Signature

Print Name

ESCROW AGENT:

Corporate Secretary

EXHIBIT A-4

CONSENT OF SPOUSE

I, _____, spouse of _____, have read and approve the foregoing Restricted Stock Purchase Agreement (the "Agreement"). In consideration of the Company's grant to my spouse of the right to purchase shares of PC-Tel, Inc., as set forth in the Agreement, I hereby appoint my spouse as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: _____, 19

Signature of Spouse

EXHIBIT A-5

ELECTION UNDER SECTION 83(b)
OF THE INTERNAL REVENUE CODE OF 1986

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income for the current taxable year the amount of any compensation taxable to taxpayer in connection with his or her receipt of the property described below:

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME: TAXPAYER: SPOUSE:
ADDRESS:
IDENTIFICATION NO.: TAXPAYER: SPOUSE:
TAXABLE YEAR:

2. The property with respect to which the election is made is described as follows: _____ shares (the "Shares") of the Common Stock of PC-Tel, Inc. (the "Company").
3. The date on which the property was transferred is: _____, 19__.
4. The property is subject to the following restrictions:
- The Shares may be repurchased by the Company, or its assignee, upon certain events. This right lapses with regard to a portion of the Shares based on the continued performance of services by the taxpayer over time.
5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$_____.
6. The amount (if any) paid for such property is: \$_____.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked
except with the consent of the Commissioner.

Dated: _____, 19____ Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: _____, 19____ Spouse of Taxpayer

PC-TEL, INC.

1998 DIRECTOR OPTION PLAN

1. Purposes of the Plan. The purposes of this 1998 Director Option Plan

 are to attract and retain the best available personnel for service as Outside Directors (as defined herein) of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be nonstatutory stock options.

2. Definitions. As used herein, the following definitions shall apply:

 (a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" means the common stock of the Company.

(d) "Company" means PC-Tel, Inc., a Delaware corporation.

(e) "Director" means a member of the Board.

(f) "Employee" means any person, including officers and Directors,

employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as

amended.

(h) "Fair Market Value" means, as of any date, the value of Common

Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(i) "Inside Director" means a Director who is an Employee.

(j) "Option" means a stock option granted pursuant to the Plan.

(k) "Optioned Stock" means the Common Stock subject to an Option.

(l) "Optionee" means a Director who holds an Option.

(m) "Outside Director" means a Director who is not an Employee.

(n) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(o) "Plan" means this 1998 Director Option Plan.

(p) "Share" means a share of the Common Stock, as adjusted in accordance with Section 10 of the Plan.

(q) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Internal Revenue Code of 1986.

3. Stock Subject to the Plan. Subject to the provisions of Section 10 of

the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 200,000 Shares of Common Stock (the "Pool"). The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable without having been exercised in full, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan.

4. Administration and Grants of Options under the Plan.

(a) Procedure for Grants. All grants of Options to Outside Directors under this Plan shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each Outside Director shall be automatically granted an Option to purchase 15,000 Shares (the "First Option") on the date on which the later of the following events occurs: (A) the effective date of this Plan, as determined in accordance with Section 6 hereof, or

(B) the date on which such person first becomes an Outside Director, whether through election by the shareholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director but who remains a Director shall not receive a First Option.

(iii) Each Outside Director shall be automatically granted an Option to purchase 7,500 Shares (a "Subsequent Option") on January 1st of each year provided he or she is then an Outside Director and if as of such date, he or she shall have served on the Board for at least the preceding six (6) months.

(iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, any exercise of an Option granted before the Company has obtained shareholder approval of the Plan in accordance with Section 16 hereof shall be conditioned upon obtaining such shareholder approval of the Plan in accordance with Section 16 hereof.

(v) The terms of a First Option granted hereunder shall be as follows:

(A) the term of the First Option shall be ten (10) years.

(B) the First Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 8 and 10 hereof.

(C) the exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant of the First Option.

(D) subject to Section 10 hereof, the First Option shall become exercisable as to 33 1/3 percent of the Shares subject to the First Option on each anniversary of its date of grant, provided that the Optionee continues to serve as a Director on such dates.

(vi) The terms of a Subsequent Option granted hereunder shall be as follows:

(A) the term of the Subsequent Option shall be ten (10) years.

(B) the Subsequent Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 8 and 10 hereof.

(C) the exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant of the Subsequent Option.

(D) subject to Section 10 hereof, the Subsequent Option shall become exercisable as to 100 percent of the Shares subject to the Subsequent Option on each anniversary of its date of grant, provided that the Optionee continues to serve as a Director on such dates.

(vii) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased under Options to exceed the Pool, then the remaining Shares available for Option grant shall be granted under Options to the Outside Directors on a pro rata basis. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the Board or the shareholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

5. Eligibility. Options may be granted only to Outside Directors. All

Options shall be automatically granted in accordance with the terms set forth in Section 4 hereof.

The Plan shall not confer upon any Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate the Director's relationship with the Company at any time.

6. Term of Plan. The Plan shall become effective upon the earlier to

occur of its adoption by the Board or its approval by the shareholders of the Company as described in Section 16 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 11 of the Plan.

7. Form of Consideration. The consideration to be paid for the Shares to

be issued upon exercise of an Option, including the method of payment, shall consist of (i) cash, (ii) check, (iii) other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (iv) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (v) any combination of the foregoing methods of payment.

8. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option

granted hereunder shall be exercisable at such times as are set forth in Section 4 hereof; provided, however, that no Options shall be exercisable until shareholder approval of the Plan in accordance with Section 16 hereof has been obtained.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 7 of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a

shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Continuous Status as a Director. Subject to

Section 10 hereof, in the event an Optionee's status as a Director terminates (other than upon the Optionee's death or total and permanent disability (as defined in Section 22(e)(3) of the Code)), the Optionee may exercise his or her Option, but only within three (3) months following the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of such termination, and to the extent that the Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. In the event Optionee's status as a

Director terminates as a result of total and permanent disability (as defined in Section 22(e)(3) of the Code), the Optionee may exercise his or her Option, but only within twelve (12) months following the date of such termination, and only to the extent that the Optionee was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(d) Death of Optionee. In the event of an Optionee's death, the

Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option, but only within twelve (12) months following the date of death, and only to the extent that the Optionee was entitled to exercise it on the date of death (but in no event later than the expiration of its ten (10) year term). To the extent that the Optionee was not entitled to exercise an Option on the date of death, and to the extent that the Optionee's estate or a person who acquired the right to exercise such Option does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

9. Non-Transferability of Options. The Option may not be sold, pledged,

assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

10. Adjustments Upon Changes in Capitalization, Dissolution, Merger or

Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the

shareholders of the Company, the number of Shares covered by each outstanding Option, the number of Shares

which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option, and the number of Shares issuable pursuant to the automatic grant provisions of Section 4 hereof shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed

dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised, it shall terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company

with or into another corporation or the sale of substantially all of the assets of the Company, outstanding Options may be assumed or equivalent options may be substituted by the successor corporation or a Parent or Subsidiary thereof (the "Successor Corporation"). If an Option is assumed or substituted for, the Option or equivalent option shall continue to be exercisable as provided in Section 4 hereof for so long as the Optionee serves as a Director or a director of the Successor Corporation. Following such assumption or substitution, if the Optionee's status as a Director or director of the Successor Corporation, as applicable, is terminated other than upon a voluntary resignation by the Optionee, the Option or option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable. Thereafter, the Option or option shall remain exercisable in accordance with Sections 8(b) through (d) above.

If the Successor Corporation does not assume an outstanding Option or substitute for it an equivalent option, the Option shall become fully vested and exercisable, including as to Shares for which it would not otherwise be exercisable. In such event the Board shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and upon the expiration of such period the Option shall terminate.

For the purposes of this Section 10(c), an Option shall be considered assumed if, following the merger or sale of assets, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common

stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

11. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend,

alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or

termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated.

12. Time of Granting Options. The date of grant of an Option shall, for

all purposes, be the date determined in accordance with Section 4 hereof.

13. Conditions Upon Issuance of Shares. Shares shall not be issued

pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

14. Reservation of Shares. The Company, during the term of this Plan, will

at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

15. Option Agreement. Options shall be evidenced by written option

agreements in such form as the Board shall approve.

16. Shareholder Approval. The Plan shall be subject to approval by the

shareholders of the Company within twelve (12) months after the date the Plan is
adopted. Such shareholder approval shall be obtained in the degree and manner
required under applicable state and federal law and any stock exchange rules.

DIRECTOR OPTION AGREEMENT

PC-Tel, Inc., a Delaware corporation (the "Company"), has granted to _____ (the "Optionee"), an option to purchase a total of _____ (_____) shares of the Company's Common Stock (the "Optioned Stock"), at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the Company's 1998 Director Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The terms defined in the Plan shall have the same defined meanings herein.

1. Nature of the Option. This Option is a nonstatutory option and is not _____ intended to qualify for any special tax benefits to the Optionee.

2. Exercise Price. The exercise price is \$_____ for each share of _____ Common Stock.

3. Exercise of Option. This Option shall be exercisable during its term _____ in accordance with the provisions of Section 8 of the Plan as follows:

(i) Right to Exercise. _____

(a) This Option shall become exercisable in installments cumulatively with respect to _____ percent (____%) of the Optioned Stock one year after the date of grant, and as to an additional _____ percent (____%) of the Optioned Stock on each anniversary of the date of grant, so that one hundred percent (100%) of the Optioned Stock shall be exercisable [_____] years after the date of grant; provided, however, that in no event shall any Option be exercisable prior to the date the stockholders of the Company approve the Plan.

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Optionee's death, disability or other termination of service as a Director, the exercisability of the Option is governed by Section 8 of the Plan.

(ii) Method of Exercise. This Option shall be exercisable by written _____

notice which shall state the election to exercise the Option and the number of Shares in respect of which the Option is being exercised. Such written notice, in the form attached hereto as Exhibit A, shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price.

4. Method of Payment. Payment of the exercise price shall be by any of _____ the following, or a combination thereof, at the election of the Optionee:

(i) cash;

(ii) check; or

(iii) surrender of other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price.

5. Restrictions on Exercise. This Option may not be exercised if the

issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulations, or if such issuance would not comply with the requirements of any stock exchange upon which the Shares may then be listed. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Non-Transferability of Option. This Option may not be transferred in

any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Term of Option. This Option may not be exercised more than ten (10)

years from the date of grant of this Option, and may be exercised during such period only in accordance with the Plan and the terms of this Option.

8. Taxation Upon Exercise of Option. Optionee understands that, upon

exercise of this Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares purchased over the exercise price paid for such Shares. Since the Optionee is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, under certain limited circumstances the measurement and timing of such income (and the commencement of any capital gain holding period) may be deferred, and the Optionee is advised to contact a tax advisor concerning the application of Section 83 in general and the availability a Section 83(b) election in particular in connection with the exercise of the Option. Upon a resale of such Shares by the Optionee, any difference between the sale price and the Fair Market Value of the Shares on the date of exercise of the Option, to the extent not included in income as described above, will be treated as capital gain or loss.

DATE OF GRANT:

PC-TEL, INC.
a Delaware corporation

By: _____

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

Dated: _____

Optionee

EXHIBIT A

DIRECTOR OPTION EXERCISE NOTICE

PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

Attention: Corporate Secretary

1. Exercise of Option. The undersigned ("Optionee") hereby elects to

exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of PC-Tel, Inc. (the "Company") under and pursuant to the Company's 1998 Director Option Plan and the Director Option Agreement dated _____ (the "Agreement").
2. Representations of Optionee. Optionee acknowledges that Optionee has

received, read and understood the Agreement.
3. Federal Restrictions on Transfer. Optionee understands that the Shares

must be held indefinitely unless they are registered under the Securities Act of 1933, as amended (the "1933 Act"), or unless an exemption from such registration is available, and that the certificate(s) representing the Shares may bear a legend to that effect. Optionee understands that the Company is under no obligation to register the Shares and that an exemption may not be available or may not permit Optionee to transfer Shares in the amounts or at the times proposed by Optionee.
4. Tax Consequences. Optionee understands that Optionee may suffer

adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultant(s) Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.
5. Delivery of Payment. Optionee herewith delivers to the Company the

aggregate purchase price for the Shares that Optionee has elected to purchase and has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

6. Entire Agreement. The Agreement is incorporated herein by reference.

This Exercise Notice and the Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof. This Exercise Notice and the Agreement are governed by Delaware law except for that body of law pertaining to conflict of laws.

Submitted by: Accepted by:

OPTIONEE: PC-TEL, INC.

By: -----

Its: -----

Address: 630 Alder Drive, Suite 202
Milpitas, CA 95035

Dated: ----- Dated: -----

DIRECTOR OPTION AGREEMENT

PC-Tel, Inc., a Delaware corporation (the "Company"), has granted to _____ (the "Optionee"), an option to purchase a total of _____ (_____) shares of the Company's Common Stock (the "Optioned Stock"), at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the Company's 1998 Director Option Plan (the "Plan") adopted by the Company which is incorporated herein by reference. The terms defined in the Plan shall have the same defined meanings herein.

1. Nature of the Option. This Option is a nonstatutory option and is not _____ intended to qualify for any special tax benefits to the Optionee.

2. Exercise Price. The exercise price is \$_____ for each share of _____ Common Stock.

3. Exercise of Option. This Option shall be exercisable during its term _____ in accordance with the provisions of Section 8 of the Plan as follows:

(i) Right to Exercise. _____

(a) This Option shall become exercisable in installments cumulatively with respect to _____ percent (____%) of the Optioned Stock one year after the date of grant, and as to an additional _____ percent (____%) of the Optioned Stock on each anniversary of the date of grant, so that one hundred percent (100%) of the Optioned Stock shall be exercisable [_____] years after the date of grant; provided, however, that in no event shall any Option be exercisable prior to the date the stockholders of the Company approve the Plan.

(b) This Option may not be exercised for a fraction of a share.

(c) In the event of Optionee's death, disability or other termination of service as a Director, the exercisability of the Option is governed by Section 8 of the Plan.

(ii) Method of Exercise. This Option shall be exercisable by written _____

notice which shall state the election to exercise the Option and the number of Shares in respect of which the Option is being exercised. Such written notice, in the form attached hereto as Exhibit A, shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price.

4. Method of Payment. Payment of the exercise price shall be by any of _____ the following, or a combination thereof, at the election of the Optionee:

(i) cash;

(ii) check; or

(iii) surrender of other shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; or

(iv) delivery of a properly executed exercise notice together with such other documentation as the Company and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price.

5. Restrictions on Exercise. This Option may not be exercised if the

issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulations, or if such issuance would not comply with the requirements of any stock exchange upon which the Shares may then be listed. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Non-Transferability of Option. This Option may not be transferred in

any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Term of Option. This Option may not be exercised more than ten (10)

years from the date of grant of this Option, and may be exercised during such period only in accordance with the Plan and the terms of this Option.

8. Taxation Upon Exercise of Option. Optionee understands that, upon

exercise of this Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares purchased over the exercise price paid for such Shares. Since the Optionee is subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, under certain limited circumstances the measurement and timing of such income (and the commencement of any capital gain holding period) may be deferred, and the Optionee is advised to contact a tax advisor concerning the application of Section 83 in general and the availability a Section 83(b) election in particular in connection with the exercise of the Option. Upon a resale of such Shares by the Optionee, any difference between the sale price and the Fair Market Value of the Shares on the date of exercise of the Option, to the extent not included in income as described above, will be treated as capital gain or loss.

DATE OF GRANT:

PC-TEL, INC.
a Delaware corporation

By: _____

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

Dated: _____

Optionee

EXHIBIT A

DIRECTOR OPTION EXERCISE NOTICE

PC-Tel, Inc.
630 Alder Drive, Suite 202
Milpitas, CA 95035

Attention: Corporate Secretary

1. Exercise of Option. The undersigned ("Optionee") hereby elects to

exercise Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of PC-Tel, Inc. (the "Company") under and pursuant to the Company's 1998 Director Option Plan and the Director Option Agreement dated _____ (the "Agreement").
2. Representations of Optionee. Optionee acknowledges that Optionee has

received, read and understood the Agreement.
3. Federal Restrictions on Transfer. Optionee understands that the Shares

must be held indefinitely unless they are registered under the Securities Act of 1933, as amended (the "1933 Act"), or unless an exemption from such registration is available, and that the certificate(s) representing the Shares may bear a legend to that effect. Optionee understands that the Company is under no obligation to register the Shares and that an exemption may not be available or may not permit Optionee to transfer Shares in the amounts or at the times proposed by Optionee.
4. Tax Consequences. Optionee understands that Optionee may suffer

adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultant(s) Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.
5. Delivery of Payment. Optionee herewith delivers to the Company the

aggregate purchase price for the Shares that Optionee has elected to purchase and has made provision for the payment of any federal or state withholding taxes required to be paid or withheld by the Company.

6. Entire Agreement. The Agreement is incorporated herein by reference.

This Exercise Notice and the Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof. This Exercise Notice and the Agreement are governed by Delaware law except for that body of law pertaining to conflict of laws.

Submitted by: Accepted by:

OPTIONEE: PC-TEL, INC.

By: -----

Its: -----

Address: 630 Alder Drive, Suite 202
Milpitas, CA 95035

Dated: ----- Dated: -----

PC-TEL, INC.

1998 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. The purpose of the Plan is to provide employees of the

 Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

 (a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean PC-Tel, Inc., a Delaware corporation, and

 any Designated Subsidiary of the Company.

(e) "Compensation" shall mean all base straight time gross earnings

 and commissions, exclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.

(f) "Designated Subsidiary" shall mean any Subsidiary which has been

 designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "Employee" shall mean any individual who is an Employee of the

 Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) "Enrollment Date" shall mean the first day of each Offering

 Period.

(i) "Exercise Date" shall mean the last day of each Offering Period.

(j) "Fair Market Value" shall mean, as of any date, the value of

 Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq

SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(k) "Offering Period" shall mean a period of approximately six (6)

months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after February 15 and terminating on the last Trading Day in the period ending the following August 14, or commencing on the first Trading Day on or after August 15 and terminating on the last Trading Day in the period ending the following February 14; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before February 14, 2000. The duration of Offering Periods may be changed pursuant to Section 4 of this Plan.

(l) "Plan" shall mean this Employee Stock Purchase Plan.

(m) "Purchase Price" shall mean an amount equal to 85% of the Fair

Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower.

(n) "Reserves" shall mean the number of shares of Common Stock

covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(o) "Subsidiary" shall mean a corporation, domestic or foreign, of

which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(p) "Trading Day" shall mean a day on which national stock exchanges

and the Nasdaq System are open for trading.

3. Eligibility.

(a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d)

of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive

Offering Periods with a new Offering Period commencing on the first Trading Day on or after February 15 and August 15 each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before February 14, 2000. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office prior to the applicable Enrollment Date.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the

first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each

eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Offering Period more than 2,000 shares (subject to any adjustment pursuant to Section 19), and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The Option shall expire on the last day of the Offering Period.

8. Exercise of Option. Unless a participant withdraws from the Plan as

provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after each Exercise Date on which

a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option.

10. Withdrawal.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.

(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment. Upon a participant's ceasing to be an

Employee for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. Interest. No interest shall accrue on the payroll deductions of a

participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be Eight Hundred Thousand (800,000) shares, plus an annual increase to be added on the first day of the Company's fiscal year equal to the lesser of (i) 350,000 Shares, (ii) 2% of the outstanding shares on such date or (iii) a lesser amount determined by the Board. If, on a given Exercise Date, the number of shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Company shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board or a

committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a

participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company

under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts shall be maintained for each participant

in the Plan. Statements of account shall be given to participating Employees at least annually, which statements

shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation,

Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the

stockholders of the Company, the Reserves, the maximum number of shares each participant may purchase per Offering Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration". Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed

dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all

or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"). The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 19 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

21. Notices. All notices or other communications by a participant to the

Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with

respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to

occur of its adoption by the Board of Directors or its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 20 hereof.

PC-TEL, INC.

SUBSCRIPTION AGREEMENT

1. _____ hereby elects to participate in the PC-Tel, Inc. 1998 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of _____% of my Compensation on each payday (from 1 to _____%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.

4. I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to stockholder approval of the Employee Stock Purchase Plan.

5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only):

6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares), I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I hereby agree to notify the Company in writing within

30 days after the date of any disposition of shares and I will make adequate

provision for Federal, state or other tax withholding obligations, if any.

which arise upon the disposition of the Common Stock. The Company may, but

will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.
8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

(First) (Middle) (Last)

(Address)

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT
THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated:

Signature of Employee

Spouse's Signature (If beneficiary other
than spouse)

EXHIBIT B

PC-TEL, INC.

1998 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the PC-Tel, Inc. 1998 Employee Stock Purchase Plan which began on _____ 19____ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

Signature:

Date:

[LOGO OF PCTEL APPEARS HERE]

March 31, 1998

Derek S. Obata
2892 Senderling Drive
Fremont, CA 94555

Dear Derek,

I am pleased to offer you the position of Vice President, Sales, effective April 20, 1998. In that capacity, you will report to me, President & CEO of PC-TEL, Inc.. Based on your academic background, work experience, references and interviews, we are very impressed with your potential and look forward to your contribution as a member of the PC-TEL team. We hope you share our excitement.

Your primary responsibilities will be:

- 1) Develop and implement effective corporate sales strategies and programs
- 2) Coordinate new product identification and sales insertion
- 3) Manage the Company's overall sales efforts including board integrators and OEM account relationships, but excluding non recurring engineering
- 4) Evangelize the Company's HSP technology, position the Company and its products in the most effective markets and accounts
- 5) Assist marketing with strategic planning and business expansion with execution through a team approach with all senior executive management critical to success
- 6) Other projects, as requested

Your annual salary will be \$150,000 paid twice a month and the potential for an additional \$100,000 based on the Sales Commission Plan as discussed during your interview and participation in the Corporate executive bonus program. This salary level will be reviewed annually based on Company goals, your personal performance and contribution. You will be entitled to receive three (3) weeks of annual paid PTO (personal time off). You also receive 130,000 Incentive Stock Options which vest on (4) years basis. You will earn 25% vestment on your first year full-time employment anniversary date and 1/48 for the every full-time employment month. An additional 65,000 Non-Qualify Stock Options to be earned 25% each year, based on meeting the Company annual financial revenue target, and which will be 100% of the publically released financial goal. The grant price per share will be subject to Board of Directors' approval. PC-TEL also provides 401(k) profit sharing plan, Section 125 cafeteria plan and a company-paid medical insurance for you and your family.

You will also be entitled to one year severance pay and acceleration of option grants in the event there is a change in ownership, in accordance with Corporate executive ownership transition program.

As you make the transition from your current employer to the Company, please note our policy is to avoid situations in which information or materials considered proprietary by others might come into our hands. Indeed, a condition to your employment will be to sign the Proprietary Information and Inventions Agreement to expose neither yourself nor the Company to legal liability by divulging trade

secrets or confidential information of any former employer or any other party. We are interested in employing you because of your skills and abilities, not because of any trade secrets learned elsewhere. Thus it is important you take care not to bring, even inadvertently, any books, notes or other materials except your own personal effects as you leave your present employer.

While we hope we are entering into a mutually advantageous relationship, there are not guarantees of success. Employment with PC-TEL is not for a specific term and can be terminated by yourself or by the Company at any time for any reason, with or without cause. Any contrary representations which may have been made or which may be made to you are superseded by this offer. We request that all of our employees, to the extent possible, give us advance notice if they intend to resign.

We are pleased you have decided to become part of the PC-TEL team and ask that you sign and return a copy of this letter confirming that you understand and agree to the terms of employment stated above. Upon your acceptance, the terms described in this letter shall be the terms of your employment. Any additions or modifications of these terms must be in writing and signed by yourself and me.

This offer is valid for 5 days from the date of this offer letter.

If you have any questions, please do not hesitate to call me at (408) 965-2100.

Sincerely,

Acknowledged and Agreed to,

/s/ Peter Chen

/s/ Derek S. Obata

Peter Chen
President & CEO

Derek S. Obata

4-7-98

4-7-98

Date

Date

July 19, 1999

Mr. William F. Roach
24020 Oak Knoll Circle
Los Altos, CA 94022

Dear Bill:

I am pleased to offer you the position of President and Chief Operating Officer of PC-Tel, effective August 1, 1999. In this capacity, you will report to Peter Chen, Chief Executive Officer of PC-TEL, Inc. Based on your academic background, work experience, references and interviews, we are very impressed with your potential and look forward to your contribution as a member of the PC-TEL team. We hope you share our excitement.

Your primary responsibilities will be:

1. Efficient and effective daily operations of the Company
2. Achievement of the stated Corporate financial goals
3. Effective management of the senior staff reporting to your position

Your annual salary will be \$250,000, paid twice a month. This salary level will be reviewed annually, based on Company goals and your personal performance and contribution. You will be entitled to a bonus plan with an annual payout of \$150,000, paid quarterly, assuming the Company achieves its stated quarterly net income targets. For every 1% of net income over the Company's quarterly profit plan you will receive an additional 4% of your quarterly bonus, up to a maximum of 200% of that quarter's base bonus. For every 1% below the quarterly profit plan, 4% of your base bonus will be deducted from the bonus calculation to a minimum of 75% of planned net income, at which point no bonus will be due. Additionally, you will receive a \$50,000 signing bonus at the start of your employment. Should you leave within the first year of employment, this signing bonus will be due the Company 30 days from your last day of employment (excluding any severance period). If your employment is terminated for any reason other than for cause, you will be entitled to one year of severance. If the termination comes within the first year of employment, you will also be entitled to exercise your entire first year's stock options in accordance with the Stock Plan's timeframe. As a qualifying employee of PC-TEL, you will be eligible to participate in the Company Benefits Plan, including but not limited to three (3) weeks of annual paid time off in your first year, complete medical, dental and vision plans, 401 k and 125 cafeteria plans and short and long term disability plans.

We will recommend to the Board of Directors of the Company that, at the next Board meeting, you be granted an incentive stock option entitling you to purchase up to 400,000 shares of Common Stock of the Company at the then current fair market value as determined by the Board at that meeting. Such options shall be subject to the terms and conditions of the Company's Stock Option Plan and Stock Option Agreement. This option grant will vest on the following schedule: 30% at the end of your first year of employment, 25% in years 2 and 3 and 20% in year 4. Vesting after the twelfth month of employment is on a monthly basis. Should the Company's IPO take place during your first year of employment, 50% of your first year's options (60,000) will vest at the time of the IPO, and the remaining 50% of your first year's options (60,000) will vest upon reaching the completion of your twelfth month of employment.

As you make the transition from your current employer to the Company, please note our policy is to avoid situations in which information or materials considered proprietary by others might come into our hands. Indeed, a condition to your employment will be to sign the Proprietary Information and Inventions Agreement to expose neither yourself nor the Company to legal liability by divulging trade secrets or confidential information of any former employer or any other party. We are interested in employing you because of your skills and abilities, not because of any trade secrets learned elsewhere. Thus it is important you take care not to bring, even inadvertently, any books, notes or other materials except your own personal effects as you leave your present employer.

You should be aware that your employment with the Company is for no specified period and constitutes at-will employment as a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

In the event of any dispute or claim relating to or arising out of our employment relationship, you and the Company agree that all such disputes, including but not limited to, claims of harassment, discrimination and wrongful termination, shall be settled by arbitration held in Santa Clara County, California, under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280, et seq., including section 1283.05, (the "Rules") and pursuant to California law. A copy of the Rules is available for your review prior to signing this Agreement.

We are pleased you have decided to become part of the PC-TEL team and ask that you sign and return a copy of this letter confirming that you understand and agree to the terms of employment stated above. Upon your acceptance, the terms described in this letter shall be the terms of your employment. Any additions or modifications of these terms must be in writing and signed by yourself and me.

This offer is valid for 7 days from the date of this offer letter.

If you have any questions, please do not hesitate to call me at (408) 965-2100.

Sincerely,

/s/ Peter Chen

Peter Chen
Chief Executive Officer

Acknowledged and Agreed to,

/s/ William F. Roach

William F. Roach

7/20/99

Date
Amended by Attachment "A"

Enclosures
Duplicate Original Letter
Employment, Confidential Information, Invention Assignment and Arbitration Agreement

7/20/99

Attachment "A"

- . Signing Bonus will be net \$50,000
- . Price per share for stock options will not exceed \$10.25 per share

/s/ Peter Chen

Peter Chen

/s/ William Roach

William Roach

7/20/99

SUBLEASE AGREEMENT

DATED: September 24, 1998

ARTICLE 1: FUNDAMENTAL SUBLEASE PROVISIONS.

1.1 PARTIES: Sublessor: KLA-TENCOR CORPORATION, a Delaware corporation
(formerly known as KLA Instruments Corporation)

Sublessee: PCTEL, INC., a Delaware corporation

1.2 MASTER LEASE: (Article 3): Sublessor, as tenant, is leasing from Master Lessor (named below), as landlord, approximately 132,150 square feet of leasable area consisting of the following locations: 130-134 Rio Robles (47,114 sf), 90 Rio Robles (53,013 sf) and 64-70 Rio Robles (32,023 sf) in the City of San Jose, State of California (collectively, the "Premises") on the terms and subject to the conditions of that certain lease agreement executed dated as of July 29, 1994 as amended by the First Amendment to Lease dated September 15, 1994, the Second Amendment to Lease dated July 26, 1995, the Third Amendment to Lease dated September 8, 1995, the Fourth Amendment to Lease dated May 21, 1997, and the Fifth Amendment to Lease dated November 21, 1997 (collectively, the "Master Lease"). A copy of the Master Lease is attached hereto as Exhibit A. The Premises are located within a complex which consists of multiple buildings (including the Premises), together with related driveways, parking areas and related fixtures and improvements (collectively, the "Complex").

Master Lessor: CARRAMERICA REALTY CORPORATION,
a Maryland corporation, as successor in interest
to Knickerbocker Properties, Inc., I

1.3 SUBLEASE PREMISES: (Article 2): The Sublease Premises constitutes a part of the Premises and contains approximately 32,023 square feet of leasable area, which constitutes all of the building located at 64-70 Rio Robles (the "Sublease Premises"). The Sublease Premises is further described on the drawings attached to the Master Lease.

1.4 SUBLEASE TERM: (Article 4): Approximately 47 calendar months, beginning on the Commencement Date and ending on the Termination Date described below, unless commenced later or terminated earlier pursuant to the terms of this Sublease.

1.5 SCHEDULED COMMENCEMENT DATE: (Article 4.1): September 24, 1998
(estimated)

1.6 TERMINATION DATE: (Article 4.1): August 31, 2002

1.7 SCHEDULED RENTAL COMMENCEMENT DATE: (Article 5.2): October 1, 1998
(estimated)

1.8 MINIMUM MONTHLY RENT: (Article 5.2):

| | |
|---|--------------------------------|
| Rental Commencement Date-September 30, 1999 | \$48,034.50/mo(\$1.50/sf/mo.) |
| October 1, 1999-September 30, 2000 | \$50,436.23/mo(\$1.575/sf/mo.) |
| October 1, 2000-September 30, 2001 | \$52,966.04/mo(\$1.654/sf/mo.) |
| October 1, 2001-August 31, 2002 | \$55,591.92/mo(\$1.736/sf/mo.) |

- 1.9 PREPAID RENT: (Article 5.4): \$57,000.94
- 1.10 SECURITY DEPOSIT: (Article 6): \$55,591.92
- 1.11 PERMITTED USE: (Article 7): office, marketing, assembly, storage, and distribution of semiconductor equipment
- 1.12 GUARANTOR: N/A
- 1.13 ADDRESSES FOR NOTICES: (Article 11):
- Master Lessor: Carramerica Realty Corporation
1810 Gateway Drive, Suite 150
San Mateo, CA 94404
Attn: Vice-President, Market Officer
Fax: (650) 655-6803
- Copy to: Carramerica Realty Corporation
1850 K Street, N.W.
Washington, DC 20006
Attn: Lease Administrator
Fax: (202) 729-1040
- Sublessor: KLA-Tencor Corporation
160 Rio Robles, MS X-2225
San Jose, California 95134
Attn: Russ Southland
Fax: (408)434-4263
- Copy to: KLA-Tencor Corporation
160 Rio Robles
San Jose, California 95134
Attn: Lisa C. Berry, General Counsel
Fax: (408) 875-2002
- Sublessee: PCTel, Inc.
64 Rio Robles
San Jose, California 95134
Attn: Monica Wang
Fax: (408) 383-0455
- 1.14 ADDRESS FOR PAYMENT OF RENT: (Article 5.1): Checks for Rent and other payments under this Sublease should be made payable to "KLA-Tencor Corporation" and sent to the following address:
- STAUBACH ALLIANCE SERVICES
6750 LBJ Freeway, Suite 1100
Dallas, TX 75240
Attn: Leslie Dunaway
- 1.15 SUBLESSOR'S BROKER: (Article 24.4): The Staubach Company, Tony Lautmann

1.16 SUBLESSEE'S BROKER: (Article 24.4): Cornish & Carey Commercial Real Estate, Fred Pilster and Greg Cary

1.17 EXHIBITS AND ADDENDA: The following exhibits and any addenda are annexed to this Sublease:

| | | |
|-----------|---|-----------------------------|
| Exhibit A | - | Master Lease |
| Exhibit B | - | Notice of Commencement Date |
| Exhibit C | - | Consent to Sublease |

Each reference in this Sublease Agreement ("Sublease") to any provision in Article 1 shall be construed to incorporate all of the terms of each such provision. In the event of any conflict between this Article 1 and the balance of the Sublease, the balance of the Sublease shall control.

ARTICLE 2: SUBLEASE PREMISES.

2.1 Sublease. Sublessor hereby subleases to Sublessee and Sublessee hereby subleases from Sublessor for the Sublease Term (hereinafter defined), at the Rent (hereinafter defined) and upon the terms and conditions hereinafter set forth, the Sublease Premises, and all common areas related thereto. Sublessee acknowledges that the leasable area of the Sublease Premises as specified in Article 1 is an estimate and that Sublessor does not warrant the exact leasable area of the Sublease Premises. By taking possession of the Sublease Premises, Sublessee accepts the leasable area of the Sublease Premises as that specified in Article 1.

2.2 Condition of the Sublease Premises. Sublessor shall deliver the Sublease Premises to Sublessee broom clean with all ceiling tiles in good condition, lights fully functional with operating ballasts and with all building systems in good operating condition, and Sublessee thereupon shall accept possession of the Sublease Premises in its "As Is" condition. Sublessee acknowledges that except as expressly stated in this Sublease, (i) Sublessor makes no warranties or representations regarding the physical condition of the Sublease Premises; (ii) Sublessee has had an opportunity to inspect the Sublease Premises, including the roof and structural components of the building; the electrical, plumbing, HVAC, and other building systems serving the Sublease Premises; and the environmental condition of the Sublease Premises and related common areas; and to hire experts to conduct such inspections on its behalf; and (iii) Sublessee is leasing the Sublease Premises based on its own inspection of the Sublease Premises and those of its agents, and is not relying on any statements, representations or warranties of Sublessor regarding the physical condition of the Sublease Premises. Sublessee's taking of possession of the Sublease Premises shall constitute conclusive evidence that the Sublease Premises are in good, clean and tenantable condition and that the ceiling tiles are in good condition, the lights are fully functional with operating ballasts and all building systems are in good operating condition. If, within thirty (30) days after the Commencement Date, the building systems are found not to be in good operating condition, then, to the extent repairs of such building systems are the responsibility of Sublessor under the terms of the Master Lease and are not otherwise necessitated

by the acts or omissions of Sublessee, or its agents, employees, invitees, visitors or contractors, Sublessor shall cause the same to be corrected at its own expense promptly after receiving written notice from Sublessee to do so.

2.3 Compliance with Laws. Sublessee shall, at Sublessee's sole cost and expense, be responsible for bringing the Sublease Premises into compliance with any statutes, rules, regulations, ordinances, requirements (whether presently existing or hereinafter enacted), insurance regulations or otherwise, including but not limited to compliance with Americans with Disabilities Act and Title 24 requirements ("Applicable Laws") to the extent that compliance with such Applicable Laws is "triggered" by: (i) Sublessee's use of the Sublease Premises; (ii) Sublessee's improvements or alterations to the Sublease Premises, or (iii) Sublessee's application for a building permit or any other governmental approval.

2.4 Personal Property. Except as provided in Article 19, Sublessee acknowledges that the Sublease Premises shall not include any of the fixtures, equipment, cabling, furniture, or other personal property belonging to Sublessor, unless the parties have specifically agreed to the same in writing.

2.5 Alterations to Premises. Subject to the terms and conditions of the Master Lease, Sublessor's prior written consent (which shall not be unreasonably withheld) and Sublessee's agreement to restore the Sublease Premises at the end of the Sublease Term as required by Section 8.1 of this Sublease, Sublessee shall have the right to make alterations, additions, or improvements to the Sublease Premises, based upon a mutually agreeable floor plan. Such approved alterations, additions or improvements, shall be completed at Sublessee's sole cost and expense, in compliance with all Applicable Laws.

ARTICLE 3: TERMS OF THE MASTER LEASE.

3.1 Sublease Subordinate. This Sublease is subordinate and subject to all of the terms and conditions of the Master Lease. If the Master Lease terminates for any reason whatsoever, this Sublease shall terminate concurrently, and the parties hereto shall be relieved of any liability thereafter accruing under this Sublease, except for the liabilities of the parties which by the terms of this Sublease survive the expiration or earlier termination of this Sublease.

3.2 Sublessee's Obligations. To the extent applicable to the Sublease Premises and Sublessee's use of the Common Area (as defined in Section 1.9 of the Master Lease), Sublessee hereby expressly assumes and agrees to perform and discharge, as and when required by the Master Lease, all debts, duties and obligations to be paid, performed or discharged by Sublessor under the terms, covenants and conditions of the Master Lease from and after the Commencement Date, except as specifically set forth in this Sublease. Sublessee shall not commit or suffer at any time any act or omission that would violate any provision of the Master Lease.

3.3 Sublessor's Obligations. So long as Sublessee complies with all of its obligations under this Sublease, Sublessor shall not commit any act or omission during the Sublease Term, which would lead to the termination of the Master Lease by Master Lessor. Notwithstanding the foregoing, if Sublessee fails to comply with any of its obligations under this Sublease (including without limitation the obligations assumed by Sublessee under the Master Lease), and does not cure such failure within the applicable cure period (or if no cure period is specified in either this Sublease or the Master Lease, then within five (5) days after receiving written notice of such failure), then Sublessor shall have no obligation to Sublessee to maintain the Master Lease for Sublessee's benefit.

3.4 Master Lessor's Obligations. Sublessor shall not be responsible to Sublessee for furnishing any service, maintenance or repairs to the Sublease Premises that are the obligation of the Master Lessor under the Master Lease, it being understood that Sublessee shall look solely to Master Lessor for performance of any such service maintenance or repairs. However, if Master Lessor shall fail to perform its obligations under the Master Lease, Sublessor, upon receipt of written notice from Sublessee, shall use commercially reasonable efforts to attempt to enforce the obligations of Master Lessor under the Master Lease; provided, however, that Sublessor shall not be required to incur any costs or expenses in connection therewith unless Sublessee agrees to reimburse Sublessor for any such costs and expenses as Additional Rent hereunder.

3.5 Sublessor's Rights and Remedies. In addition to all the rights and remedies provided to Sublessor at law, in equity, or under the terms of this Sublease, (a) in the event of any breach by Sublessee of any of its obligations under this Sublease, Sublessor shall have all of the rights and remedies with respect to such breach which are available to Master Lessor in the event of any breach under the Master Lease; and (b) as a further remedy, if Sublessee fails to perform any act on its part to be performed pursuant to the requirements of the Master Lease or as otherwise required by this Sublease, within any applicable grace periods provided herein, then Sublessor may, but shall not be obligated to, fulfill such obligations of Sublessee, including entering the Sublease Premises to perform any such act, and all costs and expenses incurred by Sublessor in doing so shall be deemed Additional Rent payable by Sublessee to Sublessor upon demand.

ARTICLE 4: SUBLEASE TERM.

4.1 Commencement and Termination Dates. The term of this Sublease ("Sublease Term") shall be for the period of time commencing on the date that Sublessor delivers the Sublease Premises to Sublessee (the "Commencement Date") and ending on the termination date described in Article 1 or on such earlier date of termination as provided herein (the "Termination Date"). Promptly following the Commencement Date, the parties shall execute a Notice of Commencement Date, in the form attached hereto as Exhibit B, which shall thereafter be made a part of this Sublease.

4.2 Delay in Commencement. If for any reason possession of the Sublease Premises has not been delivered to Sublessee by the Scheduled Commencement Date or any other date, Sublessor shall not be liable to Sublessee or any other person or entity for any loss or damage resulting therefrom. In the event of such delay, the Commencement Date and the Rental Commencement Date shall be delayed until possession of the Sublease Premises is delivered to Sublessee, but the Termination Date shall not be extended. If Sublessor is unable to deliver possession of the Sublease Premises to Sublessee within sixty (60) days after the Scheduled Commencement Date (as described in Article 1), then Sublessee may terminate this Sublease by giving written notice to Sublessor at any time after that date, and the parties shall have no further liability thereafter accruing under this Sublease; provided, however, that if Sublessor tenders possession to Sublessee within five (5) days after receipt of Sublessee's notice of termination, such notice shall be void.

4.3 Early Occupancy. If Sublessor permits Sublessee to occupy the Sublease Premises prior to the Scheduled Commencement Date, such occupancy shall be subject to all of the provisions of this Sublease, except for the payment of Rent. Early occupancy of the Sublease Premises shall not advance the Termination Date. Sublessee shall, prior to entering the Sublease Premises, deliver to Sublessor certificates of insurance evidencing the policies required of Sublessee under this Sublease.

ARTICLE 5: RENT AND ADDITIONAL EXPENSES.

5.1 Payment of Rent. All monies payable by Sublessee under this Sublease shall constitute "Rent." All Rent shall be paid in lawful money of the United States, without any deduction or offset, to Sublessor at the address specified in Article 1 or such other place as Sublessor may designate in writing. No payment by Sublessee of a lesser amount than the Rent herein stipulated shall be deemed to be other than on account of the earliest stipulated Rent, nor shall any endorsement or statement on any check or any letter accompanying any check or payment of Rent be deemed an accord and satisfaction, and Sublessor may accept such check or payment without prejudice to its right to recover the balance of such Rent or to pursue any other remedy. Rent for any partial calendar months at the beginning or end of the Sublease Term shall be prorated based on a thirty (30) day month. In the event that Sublessee is notified by Master Lessor that Sublessor is in default under the Master Lease, then, if directed to do so by Master Lessor, Sublessee shall make its future payments of Minimum Monthly Rent and Additional Rent directly to Master Lessor.

5.2 Minimum Monthly Rent. Sublessee shall pay to Sublessor the sums set forth in Article 1 hereof as Minimum Monthly Rent, in advance, on the first day of each calendar month throughout the Sublease Term, commencing on the date (the "Rental Commencement Date") that is the later of the Scheduled Rental Commencement Date specified in Article 1 or one (1) week after Sublessor delivers possession of the Sublease Premises to Sublessee.

5.3 Additional Rent. In addition to Minimum Monthly Rent, commencing on the Rental Commencement Date Sublessee shall pay to Sublessor, in advance, on the first day of each calendar month, estimated payments for the amount of real property taxes, maintenance, repair, management, insurance, common area utilities and other charges attributable to and/or accruing against the Sublease Premises and the related common areas for the Sublease Term, and payable by Sublessor under the Master Lease. The 1998 estimated payments are broken down as follows:

| | | | |
|------------------------|--------------|----------------|---------------|
| Maintenance/Management | \$1.53/sf/yr | \$0.1275/sf/mo | \$4,082.93/mo |
| Real Property Taxes | \$1.53/sf/yr | \$0.1275/sf/mo | \$4,082.93/mo |
| Insurance | \$0.30/sf/yr | \$0.025/sf/mo | \$ 800.58/mo |

At the end of the calendar year, Sublessor shall reconcile the actual expenses for the Sublease Premises as compared to the estimated payments made throughout the preceding calendar year and there shall be an adjustment between Sublessor and Sublessee, with payment to Sublessor or credit to Sublessee against the next installment of Additional Rent, as the case may require, within ten (10) days after Sublessor's delivery of such reconciliation to Sublessee. It is the parties' intent that Sublessee shall pay to Sublessor, as Additional Rent hereunder, any and all charges, fees, impositions and payments of any kind whatsoever due or owing by Sublessor under the Master Lease; provided, however, that Sublessee shall not be responsible for paying any charges, fees, or payments resulting solely from the negligence of Sublessor or breach of this Sublease by Sublessor.

5.4 Janitorial and Utilities. Sublessee shall be responsible for the cost of its own janitorial services and utilities, which payment shall be made directly to the provider of such services.

5.5 Prepaid Rent. Concurrently with Sublessee's execution of this Sublease, Sublessee shall pay to Sublessor the sum specified in Article 1 as Prepaid Rent, which shall be applied to the installments of Minimum Monthly Rent and Additional Rent first coming due under this Sublease.

5.6 Late Charge. If Sublessee fails to pay any Rent when due hereunder, then Sublessee shall pay Sublessor a late charge equal to six percent (6%) of such delinquent amount as liquidated damages for Sublessee's failure to make timely payment. Any notice given by Sublessor pursuant to any statute governing unlawful detainer actions shall be deemed to be concurrent with, and not in addition to, the notice required herein. This provision for a late charge shall not be deemed to grant Sublessee a grace period or extension of time for performance. If any Rent remains delinquent for a period in excess of thirty (30) days then, in addition to such late charge, Sublessee shall pay to Sublessor interest on the delinquent amount from the end of such thirty (30) day period until paid, at the rate of ten percent (10%) per annum or the maximum rate permitted by law.

ARTICLE 6: SECURITY DEPOSIT. Upon execution of this Sublease, Sublessee shall deposit with Sublessor in cash the sum specified in Article 1 hereof as a "Security Deposit." The Security Deposit shall be held by Sublessor as security for Sublessee's faithful performance under this Sublease. If Sublessee fails to pay any Rent as and when due under this Sublease or otherwise fails to perform its obligations hereunder, then Sublessor may, at its option and without prejudice to any other remedy which Sublessor may have, apply, use or retain all or any portion of the Security Deposit toward the payment of delinquent Rent or for any loss or damage sustained by Sublessor due to such failure by Sublessee. Sublessee shall upon demand restore the Security Deposit to the original sum deposited. The Security Deposit shall not bear interest nor shall Sublessor be required to keep such sum separate from its general funds. To the extent not otherwise applied by Sublessor as provided herein, the Security Deposit shall be returned to Sublessee within thirty (30) days after the Termination Date. In the event of bankruptcy or other debtor-creditor proceedings filed by or against Sublessee, such Security Deposit shall be deemed to be applied first to the payment of Rent due Sublessor for the period immediately prior to the filing of such proceedings.

ARTICLE 7: USE.

7.1 Use of the Sublease Premises. Sublessee shall use the Sublease Premises solely for the purposes specified in Article 1 in strict conformance with the applicable requirements of the Master Lease, and for no other purpose whatsoever.

7.2 Suitability. Sublessee acknowledges that, except as may be explicitly stated in this Sublease, neither Sublessor nor any agent of Sublessor has made any representation or warranty with respect to the Sublease Premises, the permitted uses that can be made of the Sublease Premises under existing laws, or the suitability of the Sublease

Premises for the conduct of Sublessee's business, nor has Sublessor agreed to undertake any modification, alteration or improvement to the Sublease Premises.

7.3 Hazardous Materials.

7.3.1 Definitions. As used herein, the term "Hazardous Material" shall mean any hazardous or toxic substance, material or waste which is or becomes regulated by any state, federal, or local government authority, including without limitation all of those materials and substances designated as hazardous or toxic by the Environmental Protection Agency, the Department of Labor, the Department of Transportation, the Department of Agriculture, the Department of Health Services or the Food and Drug Agency. Without limiting the generality of the foregoing, the term "Hazardous Material" shall include (i) any substance, product, waste or other material of any nature whatsoever which may give rise to liability under any statutory or common law theory based on negligence, trespass, intentional tort, nuisance or strict liability or under any reported decisions of a state or federal court; (ii) gasoline, diesel fuel, or other petroleum hydrocarbons; (iii) polychlorinated biphenyls; (iv) asbestos containing materials; (v) urea formaldehyde foam insulation; and (vi) radon gas. As used herein, the term "Hazardous Material Law" shall mean any applicable statute, law, ordinance, or regulation of any governmental body or agency which regulates the use, storage, generation, discharge, treatment, transportation, release, or disposal of any Hazardous Material.

7.3.2 Use Restriction. Sublessee shall not cause or permit any Hazardous Material to be used, stored, generated, discharged, treated, transported to or from, released or disposed of in, on, over, through, or about the Sublease Premises, or any other land or improvements in the vicinity of the Sublease Premises, without the prior written consent of Master Lessor and Sublessor, which consent may be withheld in the sole and absolute discretion of Master Lessor and/or Sublessor. Without limiting the generality of the foregoing, (a) any use, storage, generation, discharge, treatment, transportation, release, or disposal of Hazardous Material by Sublessee shall strictly comply with all applicable Hazardous Material Laws, and (b) if the presence of Hazardous Material on the Sublease Premises caused or permitted by Sublessee or its agents, employees, invitees, visitors or contractors results in contamination of the Sublease Premises or any soil, air, ground or surface waters under, through, over, on, in or about the Sublease Premises, Sublessee, at its expense, shall promptly take all actions necessary to return the Sublease Premises to the condition existing prior to the existence of such Hazardous Material.

7.3.3 Sublessor Representation. Sublessor represents to Sublessee that with respect to the Sublease Premises, Sublessor has not received any notice of non-compliance under any Hazardous Material Law.

ARTICLE 8: SURRENDER.

8.1 Condition of the Sublease Premises. Subject to the provisions of this Sublease and the Master Lease regarding damage or destruction due to casualty or condemnation, upon the expiration or earlier termination of this Sublease, Sublessee shall surrender the Sublease Premises broom clean and in the same condition and repair as the Sublease Premises were delivered to Sublessee on the Commencement Date, excepting only ordinary wear and tear in accordance with the standards and requirements set forth in Section 15.2 of the Master Lease. Sublessee agrees to repair any damage to the Sublease Premises caused by or related to the removal of any articles of personal property, business or trade fixtures, machinery, equipment, cabinetwork, signs, furniture, movable partitions or permanent improvements or additions which Sublessor allows or requires Sublessee to remove, including, without limitation, repairing the floor and patching and/or painting the walls where required by Sublessor to the reasonable satisfaction of Sublessor and/or Master Lessor, all at Sublessee's sole cost and expense. Sublessee shall indemnify Sublessor against any loss or liability resulting from delay by Sublessee in so surrendering the Sublease Premises, including, without limitation, any claims made by the Master Lessor and/or any succeeding tenant founded on such delay. Such indemnity obligation shall survive the expiration or earlier termination of this Sublease.

8.2 Sublessor's Right to Access. In the thirty (30) days prior to the expiration of this Sublease, or such longer time as is reasonably necessary, Sublessor shall have the right, upon at least twenty-four (24) hours prior notice, to enter the Sublease Premises to remove personal property belonging to Sublessor, if any (including without limitation any business or trade fixtures, machinery, equipment, cabinetwork, signs, furniture, and movable partitions owned by Sublessor and located within the Sublease Premises) and to remove any improvements or additions, if any, that Sublessor is required to remove prior to surrender of the Premises pursuant to the Master Lease (not including those items to be removed by Sublessee pursuant to Article 8.1 of this Sublease). Any work performed by Sublessor pursuant to the terms of the preceding sentence shall be done in a reasonable manner to minimize the mount of inconvenience and interference to Sublessee's use and occupancy of the Sublease Premises; provided, however, Sublessor shall not be liable to Sublessee for any such inconvenience or interference caused by Sublessor's exercise of its rights pursuant to this provision.

ARTICLE 9: CONSENT. Whenever the consent or approval of Master Lessor is required pursuant to the terms of the Master Lease, for the purposes of this Sublease, Sublessee, in each such instance, shall be required to obtain the written consent or approval of both Master Lessor and Sublessor. If Master Lessor refuses to grant its consent or approval, Sublessor may withhold its consent or approval and Sublessee agrees that such action by Sublessor shall be deemed reasonable.

ARTICLE 10: INSURANCE. All insurance policies required to be carried by Sublessor under the Master Lease shall be maintained by Sublessee pursuant to the terms of the Master Lease, and shall name Sublessor and Master Lessor (and such other lenders, persons, firms, or corporations as are designated by Sublessor or Master Lessor) as additional insureds by endorsement. All policies shall be written as primary policies with respect to the interests of Master Lessor and Sublessor and such other additional insureds and shall provide that any insurance carried by Master Lessor or Sublessor or such other additional insureds is excess and not contributing insurance with respect to the insurance required hereunder. All policies shall also contain "cross liability" or "severability of interest" provisions and shall insure the performance of the indemnity set forth in Article 14 of this Sublease. Sublessee shall provide Master Lessor and Sublessor with copies or certificates of all policies, including in each instance an endorsement providing that such insurance shall not be cancelled or amended except after thirty (30) days prior written notice to Master Lessor and Sublessor. All deductibles, if any, under any such insurance policies shall be subject to the prior reasonable approval of Sublessor, and all certificates delivered to Master Lessor and Sublessor shall specify the limits of the policy and all deductibles thereunder.

ARTICLE 11: NOTICES.

11.1 Notice Requirements. All notices, demands, consents, and approvals which may or are required to be given by either party to the other under this Sublease shall be in writing and may be given by (i) personal delivery, (ii) overnight courier such as Federal Express, (iii) facsimile transmission, or (iv) United States registered or certified mail addressed as shown in Article 1. Any notice or demand so given shall be deemed to be delivered or made on (i) the date personal service is effected, (ii) the next business day if sent by overnight courier, (iii) the same day as given if sent by facsimile transmission which is received by 5:00 p.m. Pacific time with a copy deposited in the United States mail, postage prepaid, or (iv) the second business day after the same is deposited in the United States Mail as registered or certified and addressed as above provided with postage thereon fully prepaid. Either party hereto may change its address at any time by giving written notice of such change to the other party in the manner provided herein at least ten (10) calendar days prior to the date such change is desired to be effective.

11.2 Notices from Master Lessor. Each party shall provide to the other party a copy of any notice or demand received from or delivered to Master Lessor within twenty four (24) hours of receiving or delivering such notice or demand.

ARTICLE 12: DAMAGE, DESTRUCTION, CONDEMNATION. To the extent that the Master Lease gives Sublessor any rights following the occurrence of any damage, destruction or condemnation to terminate the Master

Lease, to repair or restore the Sublease Premises, to contribute toward such repair or restoration costs to avoid termination, to obtain and utilize insurance or condemnation proceeds to repair or restore the Sublease Premises, or any similar rights, such rights shall be reserved to and exercisable solely by Sublessor, in its sole and absolute discretion, and not by Sublessee. The exercise of any such right by Sublessor shall under no circumstances constitute a default or breach under this Sublease or subject Sublessor to any liability therefor.

ARTICLE 13: INSPECTION OF THE SUBLEASE PREMISES. Sublessee shall permit Sublessor and its agents to enter the Sublease Premises at any reasonable time for the purpose of inspecting the same or posting a notice of non-responsibility for alterations, additions or repairs, provided that Sublessor provides at least twenty-four (24) hours prior notice (except in the case of emergency).

ARTICLE 14: INDEMNITY; EXEMPTION OF SUBLESSOR FROM LIABILITY.

14.1 Sublessee Indemnity. Sublessee shall indemnify, defend (with counsel reasonably satisfactory to Sublessor), protect and hold harmless Sublessor and its agents, employees, contractors, stockholders, officers, directors, successors and assigns from and against any and all claims, demands, actions, suits, proceedings, liabilities, obligations, losses, damages, judgments, costs, penalties, fines, and expenses (including, but not limited to, attorneys', consultants' and expert witness fees) arising out of, resulting from, or related to (i) any injury or death to any person or injury or damage to property caused by, arising out of, or involving (A) Sublessee's use of the Sublease Premises, the conduct of Sublessee's business therein, or any activity, work or thing done, permitted or suffered by Sublessee in or about the Sublease Premises or the common areas, (B) a breach by Sublessee in the performance in a timely manner of any obligation of Sublessee to be performed under this Sublease, or (C) the negligence or intentional acts of Sublessee or Sublessee's agents, contractors, employees, subtenants, licensees, or invitees, and/or (ii) the storage, use, generation, discharge, treatment, transportation, release or disposal of Hazardous Material by Sublessee or its agents, employees, invitees, visitors or contractors in, on, over, through, from, about, or beneath the Sublease Premises or any nearby premises. This indemnity shall survive the expiration or earlier termination of this Sublease.

14.2 Sublessor Indemnity. Sublessor shall indemnify, defend (with counsel reasonably satisfactory to Sublessee), protect and hold Sublessee harmless from and against any and all claims, demands, actions, suits, proceedings, liabilities, obligations, losses, damages, judgments, costs, expenses (including, but not limited to, attorneys', consultants' and expert witness fees) arising out of, resulting from, or related to any injury or death to any person or injury or damage to property caused by, arising out of, or involving (i) a breach by Sublessor in the performance in a timely manner of any obligation of Sublessor to be performed under this Sublease, or (ii) from the gross negligence or intentional acts of Sublessor or Sublessor's agents, contractors, employees, or invitees. Nothing herein shall be deemed a representation or warranty by Sublessor regarding the physical condition of the Premises, nor create any obligation on the part of Sublessor to perform or pay for the cost of any repair or replacement to the Sublease Premises except to the extent required by Section 2.2 of this Sublease. This indemnity shall survive the expiration or earlier termination of this Sublease.

14.3 Sublessee Waiver. Sublessee, as a material part of the consideration to Sublessor, hereby assumes all risk of damage to property or injury to persons in, upon or about the Sublease Premises arising from any cause and Sublessee hereby waives all claims in respect thereof against Sublessor, except in connection with damage or injury caused solely by the gross negligence or willful misconduct of Sublessor or its authorized agents; provided, however, that in no event shall Sublessor be liable for any loss of profits or any special, indirect, incidental, consequential or punitive damages, however caused and on any theory of liability. This waiver shall survive the expiration or earlier termination of this Sublease.

14.4 Mutual Waiver of Subrogation. Each party (the "First Party") hereby releases the other party (the "Second Party"), and its partners, officers, agents, employees, and servants, from any and all claims, demands, loss, expense, or injury to the Sublease Premises or to the furnishings, fixtures, equipment, inventory, or other property in, about, or upon the Sublease Premises, which is caused by or results from perils, events, or happenings which are the

subject of fire or other casualty insurance carried by the First Party at the time of such loss or which would have been in force had the First Party carried the insurance required hereunder or by the Master Lease (collectively, the "Effective Coverage") irrespective of any negligence on the part of the Second Party that may have contributed to or caused such loss; subject to the following limitations: (i) the Second Party shall not be released from any liability to the extent that such damages are not covered by the insurance recovery under the Effective Coverage or are the result of willful acts by the Second Party, and (ii) the Second Party shall be responsible for reimbursing the First Party for any deductible owed as a result of such damages. Each party shall use commercially reasonable efforts to obtain, if needed, appropriate endorsements to its policies of insurance with respect to the foregoing releases; provided, however, that failure to obtain such endorsements shall not affect the releases hereinabove given.

ARTICLE 15: ASSIGNMENT AND SUBLETTING.

15.1 Right to Assign and Sublet. Sublessee shall not voluntarily or by operation of law assign this Sublease or enter into license or concession agreement, sublet all or any part of the Sublease Premises, or otherwise transfer, mortgage, pledge, hypothecate or encumber all or any part of Sublessee's interest in this Sublease or in the Sublease Premises or any part thereof, without the prior written consent of Master Lessor (pursuant to the terms of the Master Lease) and Sublessor (which consent will not be unreasonably withheld). Any attempt to do so without such consent being first had and obtained shall be wholly void and shall constitute a default by Sublessee under this Sublease. Notwithstanding any assignment or subletting, Sublessee shall not be relieved of its obligations hereunder, and a consent to one assignment or subletting shall not constitute a consent to any other assignment or subletting or a waiver of the provisions of this section.

15.2 Conditions Regarding Consent to Assignment or Sublet. Sublessee hereby irrevocably assigns to Sublessor all Rent and other sums or consideration in any form, from any subletting or assignment, and agrees that Sublessor, as assignee and as attorney-in-fact for Sublessee, or a receiver for Sublessee appointed upon Sublessor's application, may collect such Rent and other sums and apply the same against amounts owing to Sublessor in the event of Sublessee's default; provided, however, that until the occurrence of any act of default by Sublessee or Sublessee's subtenant, Sublessee shall have the right to collect such sums, provided that all sums in excess of the Minimum Monthly Rent set forth herein which any subtenant covenants to pay shall belong solely and exclusively to Sublessor.

15.3 Sublessor's Right to Recapture. Within ten (10) business days after Sublessee gives Sublessor written notice of intent of a proposed assignment or sublease (pursuant to the requirements set forth in the Master Lease), Sublessor shall have the right to notify Sublessee of its intent to terminate this Sublease, or in the case of a sublet of less than all of the Sublease Premises, to terminate this Sublease as to that part of the Sublease Premises and to recapture the proposed space.

ARTICLE 16: DELIVERY OF DOCUMENTS. Sublessee shall execute and deliver any document or other instrument required by Master Lessor or Sublessor pursuant to the Master Lease within five (5) days following receipt of a written request from Master Lessor or Sublessor. Failure to comply with this provision shall constitute a default by Sublessee under this Sublease.

ARTICLE 17: HOLDING OVER.

17.1 Without Consent. Any holding over by Sublessee after the Termination Date, without the prior written consent of Master Lessor and Sublessor, shall not constitute a renewal or extension of this Sublease or give Sublessee any rights in or to the Sublease Premises. In the event of any such non-permissive holding over, Sublessee shall pay Sublessor upon demand, (i) an amount equal to Two Hundred Percent (200%) of the most recent applicable Minimum Monthly Rent, computed on a daily basis for each day of the holdover period, plus (ii) all other amounts due and payable under the Sublease, plus (iii) all other amounts that Sublessor may become liable for under the Master Lease, plus (iv) any and all other damages, costs, expenses, and fees incurred or suffered by Sublessor as a result of such holdover by Sublessee.

17.2 With Consent. Any holding over by Sublessee after the Termination Date, with the prior written consent of Master Lessor and Sublessor, shall be construed as a month-to-month tenancy on the same terms and conditions as specified in this Sublease, except that the Minimum Monthly Rent during such tenancy shall be increased to an amount equal to One Hundred Fifty Percent (150%) of the most recent applicable Minimum Monthly Rent amount.

ARTICLE 18: OPTIONS.

18.1 Sublessor's rights. Any right of Sublessor to extend or renew the term of the Master Lease or to expand the Premises (if any), shall be reserved to and exercisable solely by Sublessor, in its sole discretion, and not by Sublessee. Sublessor agrees to exercise such rights to extend or renew the Master Lease only to the extent necessary to fulfill its obligations under this Sublease.

18.2 Sublessee's rights. In the event that Sublessee exercises its right to extend the term for the Sublease Premises under Section 6 of the Consent to Sublease, Lessee shall have no further obligation or liability whatsoever under the Master Lease or the Sublease with respect to the Sublease Premises following the expiration of the original term of the Master Lease as it pertains to the Sublease Premises and in no event shall Lessee have any obligation or liability under any direct lease between Master Lessor and Sublessee.

ARTICLE 19: EQUIPMENT AND FURNITURE. Prior to the Commencement Date, Sublessor shall remove its previously installed phone and security system. However, Sublessor agrees to leave in place at the Sublease Premises, and as of the Commencement Date to transfer to Sublessee, all phone and data cabling, HVAC units and electrical transformers currently located within the Sublease Premises (the "Equipment"), subject to the following: (i) Sublessee shall bear the cost of any and all sales taxes due with respect to the transfer of Equipment; (ii) Sublessor makes no representations or warranties regarding the condition of the Equipment, (iii) Sublessee agrees to accept possession of the Equipment "where is" and "as is" and acknowledges that it has relied solely on its own examination and inspection of the Equipment, and (iv) from and after the Commencement Date, the Equipment shall be the sole responsibility of Sublessee, and Sublessor shall not be under any liability or obligation in any manner to provide service, maintenance, or repairs for the Equipment. Upon the expiration or earlier termination of this Sublease, Sublessee shall remove the Equipment from the Sublease Premises in compliance with the terms of Section 8.1 of this Sublease.

ARTICLE 20: OPTION TO TERMINATE LEASE. Beginning eighteen (18) months after the Commencement Date, either Sublessor or Sublessee may terminate this Sublease by giving at least six (6) months written notice to the other party hereto. Under no circumstances shall the right conveyed by this Article be used to extend the term of this Sublease beyond the Termination Date.

ARTICLE 21: RIGHT OF FIRST OFFER TO EXPAND.

21.1 One-Time Offer to Lease Expansion Space. If at any time during the Sublease Term, Sublessor desires to lease 90 Rio Robles, San Jose, California located within Premises (the "Expansion Space") to other than an affiliated third party, then Sublessor shall give Sublessee written notice ("Lease Notice") of all material terms pursuant to which Sublessor would be willing to lease such Expansion Space. Sublessee shall have the first right, by giving written notice to Sublessor within five (5) business days after receipt of Sublessor's Lease Notice, to lease the Expansion Space pursuant to the terms contained in the Lease Notice. For purposes of this paragraph, an "affiliated third party" shall mean any corporation or entity with which Sublessee may merge or consolidate or become affiliated as a parent, subsidiary, holding company or otherwise, or any corporation or entity with which Sublessee has a strategic business relationship.

21.2 Acceptance of Expansion Space by Sublessee. If Sublessee exercises its right by giving notice within the five (5) business day period described above, Sublessor and Sublessee shall, within ten (10) business days thereafter, enter into an amendment to this Sublease incorporating the Expansion Space as part of the Sublease Premises,

amended to set forth all of the terms provided in the Lease Notice. The lease of the Expansion Space shall be subject to the approval of the Master Lessor as provided in the Master Lease.

21.3 Sublessee's Rejection of Expansion Space. If Sublessee rejects the Expansion Space, or fails to give notice of its intention to exercise its right of first offer within the requisite five (5) business day period, then Landlord may lease the Expansion Space to any prospective tenant, provided, however, that the net present value of the Rent and other economic terms, is not, collectively, greater than ten percent (10%) more favorable to the prospective tenant than the terms in Sublessor's Expansion Notice. If such terms are greater than ten percent (10%) more favorable to the prospective tenant than those terms contained in Sublessor's Expansion Notice, then Sublessor shall send Sublessee another Expansion Notice containing such terms, conditions, and covenants, and this Article 21 shall again apply.

21.4 Termination of Right of First Offer. The right of first offer set forth in this Article 21 to lease Expansion Space is a one-time offer. Upon the execution of a lease of the Expansion Space between Sublessor and Sublessee or another tenant, or if Sublessee rejects the Expansion Space, or fails to give notice of its intention to exercise its right of first offer within the requisite time period, then Sublessee shall no longer have the right of first offer, and this Article 21 shall be of no further force or effect.

ARTICLE 22: PARKING. Subject to reasonable rules and regulations that may be promulgated by Master Lessor and/or Sublessor from time to time, Sublessee shall have the non-exclusive right in common with other tenants and occupants of the Complex to use, free of a monthly fee during the term of the Sublease, one hundred twenty five (125) parking spaces located in the Complex (i.e., 3.9/1,000 square feet).

ARTICLE 23: SIGNAGE. Subject to the prior approval of all Sublessor (which approval shall not be unreasonably withheld), Master Lessor and all applicable governmental agencies, Sublessee shall have the right to use the monument sign in front of the Sublease Premises.

ARTICLE 24: GENERAL PROVISIONS.

24.1 Severability. If any term or provision of this Sublease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Sublease shall not be affected thereby, and each term and provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

24.2 Attorneys' Fees; Costs of Suit. If Sublessee or Sublessor shall bring any action or proceeding for any relief against the other, declaratory or otherwise, arising out of this Sublease, including any suit by Sublessor for the recovery of Rent or possession of the Sublease Premises, the prevailing party shall be entitled to recover its reasonable attorneys' fees and costs.

24.3 Waiver. No covenant, term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver of the breach of any covenant, term or condition shall not be deemed to be a waiver of any other covenant, term or condition or any subsequent failure to perform the same or any other such term, covenant or condition. Acceptance by Sublessor of any performance by Sublessee after the time the same shall have become due shall not constitute a waiver by Sublessor of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Sublessor in writing.

24.4 Brokerage Commissions. The parties represent and warrant to each other that they have dealt with no brokers, finders, agents or other person in connection with the transaction contemplated hereby to whom a brokerage or other commission or fee may be payable, except for the brokers named in Article 1, whose fees shall be paid as follows: (a) for the initial two year sublease commitment, a real estate commission in accordance with a separate agreement will be paid by Sublessor to Sublessor's broker, which shall be split 50/50 with Sublessee's broker. Should Sublessee occupy the Sublease Premises beyond such two year period, the brokers shall be entitled to a commission on the remaining term pursuant to the separate agreement, which commission would be invoiced to and payable by

Sublessor in six (6) month increments. Each party shall indemnify, defend and hold the other harmless from any claims arising from any breach by the indemnifying party of the representation and warranty in this Section 24.4.

24.5 Binding Effect. Preparation of this Sublease by Sublessor or Sublessor's agent and submission of the same to Sublessee shall not be deemed an offer to lease. This Sublease shall become binding upon Sublessor and Sublessee only when fully executed by Sublessor and Sublessee. Sublessor and Sublessee acknowledge and agree that this Sublease is expressly conditioned upon obtaining the consent of Master Lessor hereto following such full execution by Sublessor and Sublessee, which consent may be in the form attached as Exhibit C hereto or such other form as Master Lessor may require. In the event such consent is not so obtained within thirty (30) days following the date of this Sublease, then this Sublease shall automatically terminate and be without further force or effect, and Sublessor shall promptly return to Sublessee the prepaid rent and security deposit paid by Sublessee to Sublessor pursuant to this Sublease.

24.6 Entire Agreement. This instrument, along with any exhibits and addenda hereto, constitutes the entire agreement between Sublessor and Sublessee relative to the Sublease Premises. This Sublease may be altered, amended or revoked only by an instrument in writing signed by both Sublessor and Sublessee. There are no oral agreements or representations between the parties affecting this Sublease, and this Sublease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements, representations and understandings, if any, between the parties hereto.

24.7 Covenant of Quiet Enjoyment. Sublessor covenants with Sublessee that, upon the payment of Rent and performance of all other obligations of Sublessee hereunder, Sublessee shall be entitled to possession of the Sublease Premises for the Sublease Term, in accordance with and subject to the terms of this Sublease.

24.8 Execution. This Sublease may be executed in one or more counterparts, each of which shall be considered an original counterpart, and all of which together shall constitute one and the same instrument. Each person executing this Sublease represents that the execution of this Sublease has been duly authorized by the party on whose behalf the person is executing this Sublease.

| | |
|---|--|
| Sublessor: | Sublessee: |
| KLA-TENCOR CORPORATION, a Delaware corporation | PCTEL, INC., a Delaware corporation |
| By: /s/ Lisa C. Berry ----- | By: /s/ Peter Chen ----- |
| Name: Lisa C. Berry ----- | Name: PETER CHEN ----- |
| Title: VP General Counsel ----- | Title: President & CEO ----- |
| | By: /s/ Andrew D. Wahl ----- |
| | Name: Andrew D. Wahl ----- |
| | Title: CFO ----- |

EXHIBIT B

NOTICE OF COMMENCEMENT DATE

Date: Oct. 1, 1998

Re: Sublease dated Sept. 24, 1998 between KLA-Tencor Corporation, a Delaware corporation, as Sublessor, and PCTel, Inc., a Delaware corporation, as Sublessee

In accordance with Section 4.1 of the Sublease, the parties hereby confirm the following:

1. Sublessee has possession of the Sublease Premises. Under the provisions of the Sublease, the parties agree that the term of said Sublease commenced as of Oct. 1, 1998 (the "Commencement Date") for a term of approximately 47 months, terminating on August 3, 2002.

2. The Rental Commencement Date under the Sublease, as defined in Section 5.2 of the Sublease, is Oct. 1, 1998.

3. If the Commencement Date of the Sublease is other than the first day of the month, the first month's Minimum Monthly Rent and Additional Rent shall be prorated based on a thirty (30) day month and shall be payable on the first day of the following calendar month.

AGREED TO AND ACCEPTED:

Sublessor:

KLA-TENCOR CORPORATION,
a Delaware corporation

By: /s/ Lisa C. Berry

Name: Lisa C. Berry

Title: VP General Counsel

Sublessee:

PCTEL, INC.,
a Delaware corporation

By: /s/ Peter Chen

Name: Peter Chen

Title: President & CEO

By: /s/ Andrew D. Wahl

Name: Andrew D. Wahl

Title: CFO

FORM ONLY - DO NOT SIGN UNTIL COMMENCEMENT DATE IS ESTABLISHED

EXHIBIT B

NOTICE OF COMMENCEMENT DATE

Date: Oct. 1, 1998

Re: Sublease dated Sept. 24, 1998 between KLA-Tencor Corporation, a Delaware corporation, as Sublessor, and PCTel, Inc., a Delaware corporation, as Sublessee

In accordance with Section 4.1 of the Sublease, the parties hereby confirm the following:

1. Sublessee has possession of the Sublease Premises. Under the provisions of the Sublease, the parties agree that the term of said Sublease commenced as of Oct. 1, 1998 (the "Commencement Date") for a term of approximately 47 months, terminating on August 3, 2002.

2. The Rental Commencement Date under the Sublease, as defined in Section 5.2 of the Sublease, is Oct 1, 1998.

3. If the Commencement Date of the Sublease is other than the first day of the month, the first month's Minimum Monthly Rent and Additional Rent shall be prorated based on a thirty (30) day month and shall be payable on the first day of the following calendar month.

AGREED TO AND ACCEPTED:

Sublessor:

KLA-TENCOR CORPORATION,
a Delaware corporation

Sublessee:

PCTEL, INC.,
a Delaware corporation

By: _____

By: /s/ Peter Chen

Name: _____

Name: Peter Chen

Title: _____

Title: President & CEO

By: /s/ Andrew D. Wahl

Name: Andrew D. Wahl

Title: CFO

FORM ONLY - DO NOT SIGN UNTIL COMMENCEMENT DATE IS ESTABLISHED

EXHIBIT B

NOTICE OF COMMENCEMENT DATE

Date: Oct. 1, 1998

Re: Sublease dated Sept. 24, 1998 between KLA-Tencor Corporation, a Delaware corporation, as Sublessor, and PCTel, Inc., a Delaware corporation, as Sublessee

In accordance with Section 4.1 of the Sublease, the parties hereby confirm the following:

1. Sublessee has possession of the Sublease Premises. Under the provisions of the Sublease, the parties agree that the term of said Sublease commenced as of Oct. 1, 1998 (the "Commencement Date") for a term of approximately 47 months, terminating on August 3, 2002.

2. The Rental Commencement Date under the Sublease, as defined in Section 5.2 of the Sublease, is Oct. 1, 1998.

3. If the Commencement Date of the Sublease is other than the first day of the month, the first month's Minimum Monthly Rent and Additional Rent shall be prorated based on a thirty (30) day month and shall be payable on the first day of the following calendar month.

AGREED TO AND ACCEPTED:

Sublessor:

KLA-TENCOR CORPORATION,
a Delaware corporation

By: _____

Name: _____

Title: _____

Sublessee:

PCTEL, INC.,
a Delaware corporation

By: /s/ Peter Chen

Name: PETER CHEN

Title: PRESIDENT & CEO

By: /s/ Andrew D. Wahl

Name: ANDREW D. WAHL

Title: CFO

FORM ONLY - DO NOT SIGN UNTIL COMMENCEMENT DATE IS ESTABLISHED

EXHIBIT C

CONSENT OF LANDLORD TO SUBLEASE

Subject to the conditions set forth herein, the undersigned (sometimes referred to herein as the "Landlord") hereby consents to the attached Sublease

Agreement (defined below) dated _____, 1998, between KLA-TENCOR CORPORATION, a Delaware corporation ("Sublessor") (formerly known as KLA Instruments

Corporation ("KLA Corp.") and PCTEL, INC., a Delaware corporation ("Sublessee"),

and all its terms (the "Sublease Agreement"). This Consent does not release or

discharge Sublessor from any liability as lessee under that certain Lease dated July 29, 1994 between Knickerbocker Properties, Inc. I ("KPI"), a predecessor in interest to Landlord, and KLA Corp., as amended by that certain First Amendment to Lease dated September 15, 1994 between KPI and KLA Corp., that certain Second Amendment to Lease dated July 26, 1995 between KPI and KLA Corp., that certain Third Amendment to Lease dated September 8, 1995 between KPI and KLA Corp., that certain Fourth Amendment to Lease dated May 21, 1997 between Landlord and KLA Corp., and that certain Fifth Amendment to Lease dated November 21, 1997 between Landlord and Sublessor (collectively, the "Lease") including, without limitation

the obligation to pay rent. This consent is granted by Landlord subject to the following terms and conditions:

1. Sublessee shall not assign the Sublease Agreement nor sublet the premises described in the Sublease Agreement (the "Subleased Premises") in whole

or part without Landlord's prior written consent, which consent shall not be unreasonably withheld provided that Sublessee fully complies with all of the requirements of Article 14 of the Lease; and shall not permit Sublessee's interest in the Sublease Agreement to be vested in any third party by operation of law or otherwise.

2. This Consent shall not be deemed to be a consent to any subsequent assignment or subletting. Sublessor shall not make any subsequent amendment to the Sublease Agreement without Landlord's prior written consent, which consent shall not be unreasonably withheld. Landlord shall not be deemed to have waived any rights under the Lease by virtue of this Consent.

3. The Sublease Agreement is in all respects subordinate to the terms of the Lease. Insofar as the specific terms of the Sublease Agreement purport to amend or modify or are in conflict with the specific terms of the Lease, the terms of the Lease shall control. Landlord assumes no liability whatsoever on account of anything contained in the Sublease Agreement.

4. Any rights under the Sublease Agreement may be enforced only against Sublessor, and Sublessee shall have no right to enforce any of Sublessor's rights under the Lease against Landlord by virtue of the Sublease Agreement, this Consent, or otherwise.

5. Sublessor shall pay in addition to all other amounts due Landlord under the Lease

(including the excess rent required to be paid to Landlord pursuant to Section 14 of the Lease), the sum of \$500.00 (which sum represents the reasonable costs incurred by Landlord in connection with the review of the Sublease Agreement and the processing of this Consent thereto.

IN WITNESS WHEREOF, the undersigned has executed this Consent on behalf of Landlord as of this _____ day of September, 1998.

CARRAMERICA REALTY CORPORATION

By:

Philip L. Hawkins
Managing Director

CONSENT OF LANDLORD TO SUBLEASE

Subject to the conditions set forth herein, the undersigned (sometimes referred to herein as the "Landlord") hereby consents to the attached Sublease

Agreement (defined below) dated September 24, 1998, between KLA-TENCOR CORPORATION, a Delaware corporation ("Sublessor") (formerly known as KLA

Instruments Corporation ("KLA Corp.") and PCTEL, INC., a Delaware corporation ("Sublessee"), and all its terms (the "Sublease Agreement"). This Consent does

not release or discharge Sublessor from any liability as lessee under that certain Lease dated July 29, 1994 between Knickerbocker Properties, Inc. I ("KPI"), a predecessor in interest to Landlord, and KLA Corp., as amended by that certain First Amendment to Lease dated September 15, 1994 between KPI and KLA Corp., that certain Second Amendment to Lease dated July 26, 1995 between KPI and KLA Corp., that certain Third Amendment to Lease dated September 8, 1995 between KPI and KLA Corp., that certain Fourth Amendment to Lease dated May 21, 1997 between Landlord and KLA Corp., and that certain Fifth Amendment to Lease dated November 21, 1997 between Landlord and Sublessor (collectively, the "Lease") including, without limitation the obligation to pay rent. This consent

is granted by Landlord subject to the following terms and conditions:

1. Sublessee shall not assign the Sublease Agreement nor sublet the premises described in the Sublease Agreement (the "Subleased Premises") in whole

or part without Landlord's prior written consent, which consent shall not be unreasonably withheld provided that Sublessee fully complies with all of the requirements of Article 14 of the Lease; and shall not permit Sublessee's interest in the Sublease Agreement to be vested in any third party by operation of law or otherwise.

2. This Consent shall not be deemed to be a consent to any subsequent assignment or subletting. Sublessor shall not make any subsequent amendment to the Sublease Agreement without Landlord's prior written consent, which consent shall not be unreasonably withheld. Landlord shall not be deemed to have waived any rights under the Lease by virtue of this Consent.

3. The Sublease Agreement is in all respects subordinate to the terms of the Lease. Insofar as the specific terms of the Sublease Agreement purport to amend or modify or are in conflict with the specific terms of the Lease, the terms of the Lease shall control. Landlord assumes no liability whatsoever on account of anything contained in the Sublease Agreement.

4. Any rights under the Sublease Agreement may be enforced only against Sublessor, and Sublessee shall have no right to enforce any of Sublessor's rights under the Lease against Landlord by virtue of the Sublease Agreement, this Consent, or otherwise.

5. Sublessor shall pay in addition to all other amounts due Landlord under the Lease (including the excess rent required to be paid to Landlord pursuant to Section 14 of the Lease), the sum of \$500.00 (which sum represents the reasonable costs incurred by Landlord in connection

with the review of the Sublease Agreement and the processing of this Consent thereto.

IN WITNESS WHEREOF, the undersigned has executed this Consent on behalf of Landlord as of this 5th day of October, 1998.

CARRAMERICA REALTY CORPORATION

By: /s/ Philip L. Hawkins

Philip L. Hawkins
Managing Director

PROMISSORY NOTE

| Principal | Loan Date | Maturity | Loan No | Call | Collateral | Account | Officer | Initials |
|--------------|------------|------------|-----------|------|------------|--------------|---------|----------|
| 8,156,300.00 | 12-28-1998 | 01-05-2004 | 279002729 | 0002 | 3 | CMT 1/Note 1 | 1789 | |

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: PC-Tel, Inc. (TIN: 77-0364943) Lender: PFF Bank and Trust
 70 Rio Robles Commercial Business
 San Jose, CA 95134 Center
 9467 Milliken Avenue
 P O Box 2729
 Rancho Cucamonga, CA
 91729-2729

Principal Amount: \$8,156,300.00 Initial Rate: 8.250% Date of Note: December 28, 1998

PROMISE TO PAY. PC-Tel, Inc. ("Borrower") promises to pay to PFF Bank and Trust ("Lender"), or order, in lawful money of the United States of America, the principal amount of Eight Million One Hundred Fifty Six Thousand Three Hundred & 00/100 Dollars (\$8,156,300.00), together with interest on the unpaid principal balance from December 28, 1998, until paid in full.

PAYMENT. Subject to any payment changes resulting from changes in the index, Borrower will pay this loan on demand, or if no demand is made, in 59 regular payments of \$128,853.07 each and one irregular last payment estimated at \$2,967,315.32. Borrower's first payment is due February 5, 1999, and all subsequent payments are due on the same day of each month after that. Borrower's final payment due January 5, 2004, will be for all principal and all accrued interest not yet paid. Payments include principal and interest. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or any such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is The Wall Street Journal Prime Rate (the "Index"). The index is not necessarily the lowest rate charged by Lender on its loans. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notice to Borrower. Lender will tell Borrower the current index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each day. The index currently is 7.750%. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 0.500 percentage points over the index, resulting in an initial rate of 8.250%. NOTICE: Under no circumstances will the interest rate in this Note be more than the maximum rate allowed by applicable law. Whenever increases occur in the interest rate, Lender, at its option may do one or more of the following: (a) increase Borrower's payments to ensure Borrower's loan will pay off by its original final maturity date, (b) increase Borrower's payments to cover accruing interest, (c) increase the number of Borrower's payments, and (d) continue Borrower's payments at the same amount and increase Borrower's final payment.

PREPAYMENT PENALTY; MINIMUM INTEREST CHARGE. In any event, even upon full prepayment of this Note, Borrower understands that Lender is entitled to a minimum interest charge of \$50.00. Upon prepayment of this Note, Lender is entitled to the following prepayment penalty: Any principal reduction in excess of 20% of the outstanding balance within the first three (3) years will be subject to the following prepayment penalty: Year 1 - 3% of the prepayment amount. Year 2 - 2% of the prepayment amount. Year 3 - 1% of the prepayment amount. Other than Borrower's obligation to pay any minimum interest rate charge and prepayment penalty, Borrower may pay all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in Borrower making fewer payments.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform

Borrower's obligations under this Note or any of the Related Documents. (d) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (e) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (f) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (g) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (h) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired. (i) Lender in good faith deems itself insecure.

If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (a) cures the default within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable interest rate on this Note to 6.500 percentage points over the index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This Note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the Jurisdiction of the courts of San Bernardino County, the State of California. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other. This Note shall be governed by and construed in accordance with the laws of the State of California.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender Of \$18.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. Borrower grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

=====

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

PC-Tel, Inc.

By: /s/ Peter Chen

By: /s/ Andrew D Wahl

Peter Chen, President & CEO

Andrew D. Wahl, Vice President
and CFO

LENDER:

PFF Bank and Trust

By: /s/ Kenneth O. Wentzel

Authorized Officer

=====

Variable Rate. Balloon

LASER PRO, Reg. U.S. Pat. & T.M. Off., Ver.
3.26a (c) 1998 CFI ProServices, Inc. All
rights reserved. [CA-020 F3.26 PCTEL.LN]

BUSINESS LOAN AGREEMENT

| Principle | Loan Date | Maturity | Loan No | Call | Collateral | Account | Officer | Initials |
|-----------------|------------|------------|-----------|------|------------|--------------|---------|----------|
| \$ 8,156,300.00 | 12-28-1998 | 01-05-2004 | 279002729 | 0002 | 3 | CMT 1/Note 1 | 1789 | |

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

| | | | |
|-----------|---|---------|---|
| Borrower: | PC-Tel, Inc. (TIN: 77-0364943) 70 Rio Robles San Jose, CA 95134 | Lender: | PFF Bank and Trust Commercial Business Center 9467 Milliken Avenue P O Box 2729 Rancho Cucamonga, CA 91729-2729 |
|-----------|---|---------|---|

THIS BUSINESS LOAN AGREEMENT between PC-Tel, Inc. ("Borrower") and PFF Bank and Trust ("Lender") is made and executed on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans and other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. All such loans and financial accommodations, together with all future loans and financial accommodations from Lender to Borrower, are referred to in this Agreement individually as the "Loan" and collectively as the "Loans." Borrower understands and agrees that: (a) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (b) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (c) all such Loans shall be and shall remain subject to the following terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of December 28, 1998, and shall continue thereafter until all Indebtedness of Borrower to Lender has been performed in full and the parties terminate this Agreement in writing.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means PC-Tel, Inc.. The word "Borrower" also includes, as applicable, all subsidiaries and affiliates of Borrower as provided below in the paragraph titled "Subsidiaries and Affiliates."

CERCLA. The word "CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

Cash Flow. The words "Cash Flow" mean net income after taxes, and exclusive of extraordinary gains and income, plus depreciation and amortization.

Collateral. The word "Collateral" means and includes without limitation all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Debt. The word "Debt" means all of Borrower's liabilities excluding Subordinated Debt.

ERISA. The word "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "EVENTS OF DEFAULT."

Grantor. The word "Grantor" means and includes without limitation each and all of the persons or entities granting a Security Interest in any Collateral for the Indebtedness, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with any Indebtedness.

Indebtedness. The word "Indebtedness" means and includes without limitation all Loans, together with all other obligations, debts and liabilities of Borrower to Lender, or any one or more of them, as well as all claims by Lender against Borrower, or any one or more of them; whether now or hereafter existing, voluntary or involuntary, due or not due, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as a

guarantor, surety, or otherwise; whether recovery upon such Indebtedness may be or hereafter may become barred by any statute of limitations; and whether such Indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means PFF Bank and Trust, its successors and assigns.

Liquid Assets. The words "Liquid Assets" mean Borrower's cash on hand plus Borrower's readily marketable securities.

Loan. The word "Loan" or "Loans" means and includes without limitation any and all commercial loans and financial accommodations from Lender to Borrower, whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means and includes without limitation Borrower's promissory note or notes, if any, evidencing Borrower's Loan obligations in favor of Lender, as well as any substitute, replacement or refinancing note or notes therefor.

Permitted Liens. The words "Permitted Liens" mean: (a) liens and security interests securing Indebtedness owed by Borrower to Lender; (b) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (c) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (d) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (e) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (f) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

SARA. The word "SARA" means the Superfund Amendments and Reauthorization Act of 1986 as now or hereafter amended.

Subordinated Debt. The words "Subordinated Debt" mean Indebtedness and liabilities of Borrower which have been subordinated by written agreement to indebtedness owed by Borrower to Lender in form and substance acceptable to Lender.

Tangible Net Worth. The words "Tangible Net Worth" mean Borrower's total assets excluding all intangible assets (i.e., goodwill, trademarks, patents, copyrights, organizational expenses, and similar intangible items, but including leaseholds and leasehold improvements) less total Debt.

Working Capital. The words "Working Capital" mean Borrower's current assets, excluding prepaid expenses, less Borrower's current liabilities.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Loan Advance and each subsequent Loan Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

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(Continued)

documents and instruments as Lender or its counsel, in their sole discretion, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any advance a condition which would constitute an Event of Default under this Agreement.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of Loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Delaware and is validly existing and in good standing in all states in which Borrower is doing business. Borrower has the full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage. Borrower also is duly qualified as a foreign corporation and is in good standing in all states in which the failure to so qualify would have a material adverse effect on its businesses or financial condition.

Authorization. The execution, delivery, and performance of this Agreement and all Related Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary action by Borrower; do not require the consent or approval of any other person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Borrower or (b) any law, governmental regulation, court decree, or order applicable to Borrower.

Financial Information. Each financial statement of Borrower supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement required hereunder to be given by Borrower when delivered will constitute, legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used, or filed a financing statement under, any other name for at least the last five (5) years.

Hazardous Substances. The terms "hazardous waste," "hazardous substance," "disposal," "release," and "threatened release," as used in this Agreement, shall have the same meanings as set forth in the "CERCLA," "SARA," the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (a) During the period of Borrower's ownership of the properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from any of the properties. (b) Borrower has no knowledge of, or reason to believe that there has been (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the properties by any prior owners or occupants of any of the properties, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters. (c) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the properties shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from any of the properties; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation those laws, regulations and ordinances described above. Borrower authorizes Lender and its agents to enter upon the properties to make such inspections and tests as Lender may deem appropriate to determine compliance of the properties with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be

construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the properties for hazardous waste and hazardous substances. Borrower hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the properties. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the Indebtedness and the termination or expiration of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the properties, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all tax returns and reports of Borrower that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements directly or indirectly securing repayment of Borrower's Loan and Note and all of the Related Documents are binding upon Borrower as well as upon Borrower's successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

Commercial Purposes. Borrower intends to use the Loan proceeds solely for business or commercial related purposes.

Employee Benefit Plans. Each employee benefit plan as to which Borrower may have any liability complies in all material respects with all applicable requirements of law and regulations, and (i) no Reportable Event nor Prohibited Transaction (as defined in ERISA) has occurred with respect to any such plan, (ii) Borrower has not withdrawn from any such plan or initialed steps to do so, (iii) no steps have been taken To terminate any such plan, and (iv) there are no unfunded liabilities other than those previously disclosed to Lender in writing.

Location of Borrower's Offices and Records. Borrower's place of business, or Borrower's Chief executive office, if Borrower has more than one place of business, is located at 70 Rio Robles, San Jose, CA 95134. Unless Borrower has designated otherwise in writing this location is also the office or offices where Borrower keeps its records concerning the Collateral.

Year 2000. Borrower warrants and represents that all software utilized in the conduct of Borrower's business will have appropriate capabilities and compatibility for operation to handle calendar dates falling on or after January 1, 2000, and all information pertaining to such calendar dates, in the same manner and with the same functionality as the software does respecting calendar dates falling on or before December 31, 1999. Further, Borrower warrants and represents that the data-related user interface functions, data-fields, and data-related program instructions and functions of the software include the indication of the century.

Information. All information heretofore or contemporaneously herewith furnished by Borrower to Lender for the purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower to Lender will be, true and accurate in every material respect on the date as of which such information is dated or certified; and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading.

Survival of Representations and Warranties. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in making the above referenced Loan to Borrower. Borrower further agrees that the foregoing representations and warranties shall be continuing in nature and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, while this Agreement is in effect, Borrower will:

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Financial Records. Maintain its books and records in accordance with generally accepted accounting principles, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with, as soon as available, but in no event later than one hundred twenty (120) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, audited by a certified public accountant satisfactory to Lender, and, as soon as available, but in no event later than sixty (60) days after the end of each fiscal quarter, Borrower's balance sheet and profit and loss statement for the period ended, prepared and certified as correct to the best knowledge and belief by Borrower's chief financial officer or other officer or person acceptable to Lender. All financial reports required to be provided under this Agreement shall be prepared in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets, forecasts, tax returns, and other reports with respect to Borrower's financial condition and business operations as Lender may request from time to time.

Financial Covenants and Ratios. Comply with the following covenants and ratios:

Tangible Net Worth. Maintain a minimum Tangible Net Worth of not less than \$12,000,000.00.

Net Worth Ratio. Maintain a ratio of Total Liabilities to Tangible Net Worth of less than 1.50 to 1.00.

Other Ratio. Maintain a ratio of Debt Service Coverage: Minimum Debt Service Coverage is calculated as Net Cash After Operations (before Interest Expense) divided by Current Portion of Long Term Debt and Capital Leases plus Interest Expense. Minimum ratio required of 1.25 to 1.00.

The following provisions shall apply for purposes of determining compliance with the foregoing financial covenants and ratios: Quarterly. Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies reasonably acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the properties insured; (e) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (f) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for the following specific purposes: To be limited to the purchase of assets from General DataComm Industries, Inc., as more fully described In Asset Purchase Agreement between the parties.

Taxes, Charges and Liens. Pay and discharge when due all of its Indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (a) the legality of the same shall be contested in good faith by appropriate proceedings, and (b) Borrower shall have established on its books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance

with generally accepted accounting practices. Borrower, upon demand of Lender, will furnish to Lender evidence of payment of the assessments, taxes, charges, levies, liens and claims and will authorize the appropriate governmental official to deliver to Lender at any time a written statement of any assessments, taxes, charges, levies, liens and claims against Borrower's properties, income, or profits.

Performance. Perform and comply with all terms, conditions, and provisions set forth in this Agreement and in the Related Documents in a timely manner, and promptly notify Lender if Borrower learns of the occurrence of any event which constitutes an Event of Default under this Agreement or under any of the Related Documents.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner and in compliance with all applicable federal, state and municipal laws, ordinances, rules and regulations respecting its properties, charters, businesses and operations, including without limitation, compliance with the Americans With Disabilities Act and with all minimum funding standards and other requirements of ERISA and other laws applicable to Borrower's employee benefit plans.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificate. Unless waived in writing by Lender, provide Lender at least annually and at the time of each disbursement of Loan proceeds with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with all environmental protection federal, state and local laws, statutes, regulations and ordinances; not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (a) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (b) except as allowed as a Permitted Lien, sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets, or (c) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged, (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, (c) pay any dividends on Borrower's stock (other than dividends payable in its stock), provided, however that notwithstanding the foregoing, but only so long as no Event of Default has occurred and is continuing or would result from the payment of dividends, if Borrower is a "Subchapter S Corporation" (as defined in the Internal Revenue Code of 1986, as amended), Borrower may pay cash dividends on its stock to its shareholders from time to time in amounts necessary to enable the shareholders to pay income taxes

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CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (a) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (b) Borrower or any Guarantor becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (c) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; (d) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (e) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. Borrower grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Borrower to make any payment when due on the Loans.

Other Defaults. Failure of Borrower or any Grantor to comply with or to perform when due any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents, or failure of Borrower to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Borrower or any Grantor under this Agreement or the Related Documents is false or misleading in any material respect at the time made or furnished, or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Security Agreement to create a valid and perfected Security Interest) at any time and for any reason.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower, any creditor of any Grantor against any collateral securing the Indebtedness, or by any governmental agency. This includes a garnishment, attachment, or levy on or of any of Borrower's deposit accounts with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower or Grantor, as the case may be, as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding, and if Borrower or Grantor gives Lender written notice of the creditor or forfeiture proceeding and furnishes reserves or a surety bond for the creditor or forfeiture proceeding satisfactory to Lender.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness. Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure the Event of Default.

Change In Ownership. Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender, in good faith, deems itself insecure.

Right to Cure. If any default, other than a Default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be

cured (and no Event of Default will have occurred) if Borrower or Grantor, as the case may be, after receiving written notice from Lender demanding cure of such default: (a) cures the default within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of San Bernardino County, the State of California. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties; Corporate Authority. All obligations of Borrower under this Agreement shall be joint and several, and all references to Borrower shall mean each and every Borrower. This means that each of the persons signing below is responsible for all obligations in this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loans to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy it may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loans and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loans irrespective of the failure or insolvency of any holder of any interest in the Loans. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Costs and Expenses. Borrower agrees to pay upon demand all of Lender's expenses, including without limitation attorneys' fees, incurred in connection with the preparation, execution, enforcement, modification and collection of this Agreement or in connection with the Loans made pursuant to this Agreement. Lender may pay someone else to help collect the Loans and to enforce this Agreement, and Borrower will pay that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may

Loan No 279002729

(Continued)

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notice to all Borrowers. For notice purposes, Borrower will keep Lender informed at all times of Borrower's current address(es).

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if

the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used herein shall include all subsidiaries and affiliates of Borrower. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any subsidiary or affiliate of Borrower.

Successors and Assigns. All covenants and agreements contained by or on behalf of Borrower shall bind its successors and assigns and shall inure to the benefit of Lender, its successors and assigns. Borrower shall not, however, have the right to assign its rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival. All warranties, representations, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement shall be considered to have been relied upon by Lender and will survive the making of the Loan and delivery to Lender of the Related Documents, regardless of any investigation made by Lender or on Lender's behalf.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of

this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any obligations of Borrower or of any Grantor as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent in subsequent instances where such consent is required, and in all cases such consent may be granted or withheld in the sole discretion of Lender.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT, AND BORROWER AGREES TO ITS TERMS. THIS AGREEMENT IS DATED AS OF DECEMBER 28, 1998.

BORROWER:

PC-Tel, Inc.

By: /s/ Peter Chen

By: /s/ Andrew D. Wahl

Peter Chen, President & CEO

Andrew D. Wahl, Vice President & CFO

LENDER:

PFF Bank and Trust

By: /s/ Kenneth O. Wentzel

Authorized Officer

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COMMERCIAL PLEDGE AND SECURITY AGREEMENT

| Principle | Loan Date | Maturity | Loan No | Call | Collateral | Account | Officer | Initials |
|----------------|------------|------------|-----------|------|------------|--------------|---------|----------|
| \$8,156,300.00 | 12-28-1998 | 01-05-2004 | 279002729 | 0002 | 3 | CMT 1/Note 1 | 1789 | |

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: PC-Tel, Inc. (TIN: 77-0364943) Lender: PFF Bank and Trust
 70 Rio Robles Commercial Business Center
 San Jose, CA 95134 9467 Milliken Avenue
 P O Box 2729
 Rancho Cucamonga,
 CA 91729-2729

THIS COMMERCIAL PLEDGE AND SECURITY AGREEMENT is entered into between PC-Tel, Inc. (referred to below as "Grantor"); and PFF Bank and Trust (referred to below as "Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement:

Agreement. The word "Agreement" means this Commercial Pledge and Security Agreement, as this Commercial Pledge and Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Pledge and Security Agreement from time to time.

Collateral. The word "Collateral" means the following specifically described property, which Grantor has delivered or agrees to deliver (or cause to be delivered or appropriate book-entries made) immediately to Lender, together with all Income and Proceeds as described below:

25000.000 shares of PC-Tel Global Technologies, Ltd., certificate No. 1

In addition, the word "Collateral" includes all property of Grantor (however owned), in the possession of Lender (or in the possession of a third party subject to the control of Lender), whether now or hereafter existing and whether tangible or intangible in character, including without limitation each of the following:

- (a) All property to which Lender acquires title or documents of title.
- (b) All property assigned to Lender.
- (c) All promissory notes, bills of exchange, stock certificates, bonds, savings passbooks, time certificates of deposit, insurance policies, and all other instruments and evidences of an obligation.
- (d) All records relating to any of the property described in this Collateral section, whether in the form of a writing, microfilm, microfiche, or electronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means PC-Tel, Inc., its successors and assigns

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the indebtedness.

Income and Proceeds. The words "Income and Proceeds" mean all present and future income, proceeds, earnings, increases, and substitutions from or for the Collateral of every kind and nature, including without limitation all payments, interest, profits, distributions, benefits, rights, options, warrants, dividends, stock dividends, stock splits, stock rights, regulatory dividends, distributions, subscriptions, monies, claims for money due and to become due, proceeds of any insurance on the Collateral, shares of stock of different par value or no par value issued in substitution or exchange for shares included in the Collateral, and all other property Grantor is entitled to receive on account of such Collateral, including accounts, documents, instruments, chattel paper, and general intangibles.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note, including all principal and interest, together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them,

whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others; whether Grantor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means PFF Bank and Trust, its successors and assigns.

Note. The word "Note" means the note or credit agreement dated December 28, 1998, in the principal amount of \$8,156,300.00 from PC-Tel, Inc. to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

Obligor. The word "Obligor" means and includes without limitation any and all persons or entities obligated to pay money or to perform some other act under the Collateral.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all Indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. Grantor represents and warrants to Lender that:

Ownership. Grantor is the lawful owner of the Collateral free and clear of all security interests, liens, encumbrances and claims of others except as disclosed to and accepted by Lender in writing prior to execution of this Agreement.

Right to Pledge. Grantor has the full right, power and authority to enter into this Agreement and to pledge the Collateral.

Binding Effect. This Agreement is binding upon Grantor, as well as Grantor's heirs, successors, representatives and assigns, and is legally enforceable in accordance with its terms.

No Further Assignment. Grantor has not, and will not, sell, assign, transfer, encumber or otherwise dispose of any of Grantor's rights in the Collateral except as provided in this Agreement.

No Defaults. There are no defaults existing under the Collateral, and there are no offsets or counterclaims to the same. Grantor will strictly and promptly perform each of the terms, conditions, covenants and agreements contained in the Collateral which are to be performed by Grantor, if any.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

LENDER'S RIGHTS AND OBLIGATIONS WITH RESPECT TO COLLATERAL. Lender may hold the Collateral until all the indebtedness has been paid and satisfied and thereafter may deliver the Collateral to any Grantor. Lender shall have the following rights in addition to all other rights it may have by law

to Lender immediately upon receipt, in the exact form received and without commingling with other property, all Income and Proceeds from the Collateral which may be received by, paid, or delivered to Grantor or for Grantor's account, whether as an addition to, in discharge of, in substitution of, or in exchange for any of the Collateral.

Application of Cash. At Lender's option, Lender may apply any cash, whether included in the Collateral or received as Income and Proceeds or through liquidation, sale, or retirement, of the Collateral, to the satisfaction of the Indebtedness or such portion thereof as Lender shall choose, whether or not matured.

Transactions with Others. Lender may (a) extend time for payment or other performance, (b) grant a renewal or change in terms or conditions, or (c) compromise, compound or release any obligation, with any one or more Obligor, endorsers, or Guarantors of the Indebtedness as Lender deems advisable, without obtaining the prior written consent of Grantor, and no such act or failure to act shall affect Lender's rights against Grantor or the Collateral.

All Collateral Secures Indebtedness. All Collateral shall be security for the Indebtedness, whether the Collateral is located at one or more offices or branches of Lender and whether or not the office or branch where the Indebtedness is created is aware of or relies upon the Collateral.

Collection of Collateral. Lender, at Lender's option may, but need not, collect directly from the Obligor on any of the Collateral all Income and Proceeds or other sums of money and other property due and to become due under the Collateral, and Grantor authorizes and directs the Obligor, if Lender exercises such option, to pay and deliver to Lender all Income and Proceeds and other sums of money and other property payable by the terms of the Collateral and to accept Lender's receipt for the payments.

Power of Attorney. Grantor irrevocably appoints Lender as Grantor's attorney-in-fact, With full power of substitution, (a) to demand, collect, receive, receipt for, sue and recover all Income and Proceeds and other sums of money and other property which may now or hereafter become due, owing or payable from the Obligor in accordance with the terms of the Collateral; (b) to execute, sign and endorse any and all instruments, receipts, checks, drafts and warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and in the place and stead of Grantor, execute and deliver Grantor's release and acquittance for Grantor; (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in Lender's own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable; and (e) to execute in Grantor's name and to deliver to the Obligor on Grantor's behalf, at the time and in the manner specified by the Collateral, any necessary instruments or documents.

Perfection of Security Interest. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral. When applicable law provides more than one method of perfection of Lender's security interest, Lender may choose the method(s) to be used. Upon request of Lender, Grantor will sign and deliver any writings necessary to perfect Lender's security interest. If the Collateral consists of securities for which no certificate has been issued, Grantor agrees, at Lender's option, either to request issuance of an appropriate certificate or to execute appropriate instructions on Lender's forms instructing the issuer, transfer agent, mutual fund company, or broker, as the case may be, to record on its books or records, by book-entry or otherwise, Lender's security interest in the Collateral. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. This is a continuing Security Agreement and will continue in effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the Indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

LIMITATIONS ON OBLIGATIONS OF LENDER. Lender shall use ordinary reasonable care in the physical preservation and custody of the Collateral in Lender's possession, but shall have no other obligation to protect the Collateral or its value. In particular, but without limitation, Lender shall have no responsibility for (a) any depreciation in value of the Collateral or for the

collection or protection of any Income and Proceeds from the Collateral, (b) preservation of rights against parties to the Collateral or against third persons, (c) ascertaining any maturities, calls, conversions, exchanges, offers, lenders, or similar matters relating to any of the Collateral, or (d) informing Grantor about any of the above, whether or not Lender has or is deemed to have knowledge of such matters. Except as provided above, Lender shall have no liability for depreciation or deterioration of the Collateral.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Grantor to make any payment when due on the Indebtedness.

Other Defaults. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or such Guarantor dies or becomes incompetent. Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure the Event of Default.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender, in good faith, deems itself insecure.

Right to Cure. If any default, other than a Default on Indebtedness, is curable and if Grantor has not been given a prior notice of a breach of the same provision of this Agreement, it may be cured (and no Event of Default will have occurred) if Grantor, after Lender sends written notice demanding cure of such default, (a) cures the default within fifteen (15) days; or (b), if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Declare all Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Collect the Collateral. Collect any of the Collateral and, at Lender's option and to the extent permitted by applicable law, retain possession of the Collateral while suing on the Indebtedness.

Sell the Collateral. Sell the Collateral, at Lender's discretion, as a unit or in parcels, at one or more public or private sales. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender shall give or mail to Grantor,

notice to the public by a single publication in any newspaper of general circulation in the county where the Collateral is located, setting forth the time and place of sale and a brief description of the property to be sold. Lender may be a purchaser at any public sale.

Register Securities. Register any securities included in the Collateral in Lender's name and exercise any rights normally incident to the ownership of securities.

Sell Securities. Sell any securities included in the Collateral in a manner consistent with applicable federal and state securities laws, notwithstanding any other provision of this or any other agreement. If, because of restrictions under such laws, Lender is or believes it is unable to sell the securities in an open market transaction, Grantor agrees that Lender shall have no obligation to delay sale until the securities can be registered, and may make a private sale to one or more persons or to a restricted group of persons, even though such sale may result in a price that is less favorable than might be obtained in an open market transaction, and such a sale shall be considered commercially reasonable. If any securities held as Collateral are "restricted securities" as defined in the Rules of the Securities and Exchange Commission (such as Regulation D or Rule 144) or state securities departments under state "Blue Sky" laws, or if Grantor is an affiliate of the issuer of the securities, Grantor agrees that neither Grantor nor any member of Grantor's family will sell or dispose of any securities of such issuer without obtaining Lender's prior written consent.

Foreclosure. Maintain a judicial suit for foreclosure and sale of the Collateral.

Transfer Title. Effect transfer of title upon sale of all or part of the Collateral. For this purpose, Grantor irrevocably appoints Lender as its attorney-in-fact to execute endorsements, assignments and instruments in the name of Grantor and each of them (if more than one) as shall be necessary or reasonable.

Other Rights and Remedies. Have and exercise any or all of the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, at law, in equity, or otherwise.

Application of Proceeds. Apply any cash which is part of the Collateral, or which is received from the collection or sale of the Collateral, to reimbursement of any expenses, including any costs for registration of securities, commissions incurred in connection with a sale, attorney fees as provided below, and court costs, whether or not there is a lawsuit and including any fees on appeal, incurred by Lender in connection with the collection and sale of such Collateral and to the payment of the Indebtedness of Grantor to Lender, with any excess funds to be paid to Grantor as the interests of Grantor may appear. Grantor agrees, to the extent permitted by law, to pay any deficiency after application of the proceeds of the Collateral to the Indebtedness.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of San Bernardino County, the State of California. Lender and Grantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Grantor against the other. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties; Corporate Authority. All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the persons signing below is responsible for all obligations in this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current address(es).

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS PLEDGE AND SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED DECEMBER 28, 1998.

GRANTOR:

PC-Tel, Inc.

| | |
|-----------------------------|--------------------------------------|
| By: /s/ Peter Chen | By: /s/ Andrew D. Wahl |
| ----- | ----- |
| Peter Chen, President & CEO | Andrew D. Wahl, Vice President & CFO |

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ASSET PURCHASE AGREEMENT

BETWEEN

PC-TEL, INC.,

PC-TEL GLOBAL TECHNOLOGIES, LTD.

AND

GENERAL DATACOMM, INC.

Dated as of December 22, 1998

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "Agreement") is entered into as of
December 22, 1998 by and between PC-Tel, Inc., a Delaware corporation ("PC-Tel"
or the "Buyer"), PC-Tel Global Technologies, Ltd., a Cayman Island corporation
(the "Licensee"), and General DataComm, Inc., a Delaware corporation ("GDC" or
the "Seller"). The Buyer, the Licensee and the Seller are referred to
collectively as the "Parties."

RECITALS

A. This Agreement contemplates a transaction in which the Buyer will
purchase substantially all of the assets (and assume certain of the liabilities)
of the Technology Alliance Group, a division of the Seller ("TAG" or the
"Division") in consideration of the Purchase Price (as hereinafter defined).

B. It is the parties' intention that the Seller shall convey to the
Buyer, among other assets, technology and other intellectual property owned or
used by the Seller related to V.34 and V.90 transmission standards, analog modem
general operation and xDSL and G.Lite communication technologies. Intellectual
property assets not included within this area of communications technology are
not intended for conveyance to the Buyer.

C. In addition to the payment of the consideration to be paid by the
Buyer to the Seller in connection with the Buyer's purchase of the assets as
provided by this Agreement, the parties intend that the license fees previously
paid by the Buyer to the Seller in accordance with the License Agreement dated
as June 21, 1998 between the parties (the "June License Agreement") shall be
retained by the Seller without recourse by the Buyer, and shall not be
considered part of the purchase consideration hereunder, notwithstanding
anything to the contrary set forth in the June License Agreement.

D. Concurrently with the execution of this Agreement, the Buyer and the
Seller have entered into a License and Support Agreement of even date (the
"License and Support Agreement") to ensure the Seller continued access to
certain of the intellectual property to be acquired by the Buyer under this
Agreement.

Now, therefore, in consideration of the premises and the mutual promises
herein made, and in consideration of the representations, warranties and
covenants herein contained, the Parties agree as follows.

1. Definitions.

"Acquired Assets" shall have the meaning set forth in Section 2.1.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations
promulgated under the Securities Exchange Act of 1934, as amended.

"Assumed Liabilities" shall have the meaning in Section 2.3.

"Chemical Substance" means any chemical or other substance which is

identified or regulated under any Environmental Law or Safety Law, as now and
hereinafter in effect, or other comparable laws.

"Code" means the Internal Revenue Code of 1986, as amended.

"Contracts" has the meaning set forth in Section 2.1(d).

"Disclosure Letter" has the meaning set forth in Section 3 below.

"Employee Benefit Plan" means any (a) nonqualified deferred compensation or

retirement plan or arrangement which is an Employee Pension Benefit Plan, (b)
qualified defined contribution retirement plan or arrangement which is an
Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or
arrangement which is an Employee Pension Benefit Plan (including any
Multiemployer Plan), or (d) Employee Welfare Benefit Plan or material fringe
benefit plan or program.

"Environment" means real property and any improvements thereon, and also

includes, but is not limited to, ambient air, surface water, drinking water,
groundwater, land surface, subsurface strata and water body sediments.

"Environmental Laws" mean any federal, state, local and foreign law,

regulation or legal requirement relating to pollution, or protection or cleanup
of the Environment, including, without limitation, the Comprehensive
Environmental Response, Compensation and Liability Act, as amended, the Resource
Conservation and Recovery Act, as amended, the Clean Air Act, as amended, the
Clean Water Act, as amended, and any other law or legal requirement, as now or
hereinafter in effect, relating to: (a) the Release, containment, removal,
remediation, response, cleanup or abatement of any sort of any Chemical
Substance; (b) the manufacture, generation, formulation, processing, labeling,
distribution, introduction into commerce, use, treatment, handling, storage,
recycling, disposal or transportation of any Chemical Substance; (c) exposure of
persons, including employees, to any Chemical Substance; or, (d) the physical
structure, use or condition of a building, facility, fixture or other structure,
including, without limitation, those relating to the management, use, storage,
disposal, cleanup or removal of asbestos, asbestos-containing materials,
polychlorinated biphenyls or any other Chemical Substance.

"Environmental Liabilities and Costs" means all Losses incurred: (i) that

are required by a governmental agency or third party in order to comply with any
Environmental Law or Environmental Permit; (ii) that are required by a
governmental agency or third party as a result of a Release of any Chemical
Substance; or, (iii) that are required by a governmental agency or third party
as a result of any environmental conditions present at, created by or arising
out of the past or present operations of the Seller through the Closing Date, at
the Leased Facility.

"Environmental Permit" means any Permit or authorization from any

governmental authority required under, issued pursuant to, or authorized by any
Environmental Law.

"Equipment" has the meaning set forth in Section 2.1(b) below.

"Excluded Assets" has the meaning set forth in Section 2.2 below.

"Extremely Hazardous Substance" has the meaning set forth in Section 302 of

the Emergency Planning and Community Right-to-Know Act of 1986, as amended.

"Financial Statements" has the meaning set forth in Section 3.6 below.

"Intellectual Property" means the entire right, title and interest in and

to all proprietary rights of every kind and nature, and associated therewith
anywhere in the world, including Patents, copyrights, Trademarks, mask works,
trade secrets and proprietary information, Technology, and all applications for
any of the foregoing, and any license or agreements granting rights related to
the foregoing, included within the Acquired Assets as set forth in Section
2.1(a) below.

"Key Employees" has the meaning set forth in Section 5.1.

"Knowledge" means actual knowledge of any of the officers of GDC.

"Leased Facility" means the facility located at 61 Mattatuck Heights Road,

Waterbury, CT 06705.

"Liability" means any liability or obligation (whether known or unknown,

whether asserted or unasserted, whether absolute or contingent, whether accrued
or unaccrued, whether liquidated or unliquidated, whether incurred or
consequential and whether due or to become due), including any liability for
Taxes.

"Lien" means any mortgage, pledge, lien, Security Interest, encumbrance,

restriction on transfer, conditional sale or other title retention device or
arrangement (including, without limitation, a capital lease), transfer for the
purpose of subjection to the payment of any Indebtedness, or restriction on the
creation of any of the foregoing, whether relating to any property or right or
the income or profits therefrom; provided, however, that the term "Lien" shall
not include (i) statutory liens for Taxes to the extent that the payment thereof
is not in arrears or otherwise due, (ii) statutory or common law liens to secure
landlords, lessors or renters under leases or rental agreements confined to the
premises rented to the extent that no payment or performance under any such
lease or rental agreement is in arrears or is otherwise due, (iii) deposits or
pledges made in connection with, or to secure payment of, worker's compensation,
unemployment insurance, old age pension programs mandated under applicable laws
or other social security regulations and (iv) statutory or common law liens in
favor of carriers, warehousemen, mechanics and materialmen, statutory or common
law liens to secure claims for labor, materials or supplies and other like
liens, which secure obligations to the extent that payment thereof is not in
arrears or otherwise due.

"Losses" has the meaning set forth in Section 6.2, net of Tax effects.

"Patents" means all: (i) all patents and patent applications; (ii) any and

all counterpart U.S., international and foreign patents, applications and certificates of invention based upon or covering any portion of the foregoing patents and applications; (iii) all divisions, continuations, continuations-in-part, and substitutions of any of the preceding patents and patent applications (iv) all foreign or international applications corresponding to any of the preceding applications or patents; (v) all divisions, continuations, continuations-in-part, and substitutions of any of such foreign or international applications described in (iv); and (vi) all U.S., international and foreign patents issuing on any of the preceding applications, including extensions, reissues and re-examinations, all to the extent as set forth in Section 2.1(a).

"Permits" has the meaning set forth in Section 2.1(c) below.

"Person" means an individual, a partnership, a corporation, an association,

a joint stock company, a trust, a joint venture, an unincorporated organization or a governmental entity (or any department, agency or political subdivision thereof).

"Purchase Price" has the meaning set forth in Section 2.8 below.

"Release" means any actual or alleged spilling, leaking, pumping, pouring,

emitting, dispersing, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of any Chemical Substance or Extremely Hazardous Substance into the Environment that would cause an Environmental Liability and Cost (including the abandonment or discarding of barrels, containers, tanks or other receptacles containing or previously containing any Chemical Substance).

"Safety Laws" means any federal, state, local and foreign law, regulation

or legal requirement relating to health or safety, including the Occupational Safety and Health Act, as amended, as now or hereinafter in effect relating to (a) exposure of employees to any Chemical Substance or (b) the physical structure, use or condition of a building, facility, fixture or other structure, including, without limitation, those relating to equipment or manufacturing processes, or the management, use, storage, disposal, cleanup or removal of any Chemical Substance.

"Safety Liabilities and Costs" means all Losses incurred to comply with any

Safety Law, or as a result of any health or safety conditions present at, created by or arising out of the past or present operations of the Seller, through the Closing Date.

"Security Interest" means any mortgage, pledge, lien, or other security

interest, other than (a) mechanic's, materialmen's and similar liens, (b) liens

for Taxes not yet due and payable, and (c) purchase money liens and liens securing rental payments under capital lease arrangements; provided however that the term "Security Interest" shall not include (i) statutory liens for Taxes to the extent that the payment thereof is not in arrears or otherwise due, (ii) statutory or common law liens to secure landlords, lessors or renters under leases or rental agreements confined to the premises rented to the extent that no payment or performance under any such lease or rental agreement is in arrears or is otherwise due, (iii) deposits or pledges made in connection with, or to secure payment

of, worker's compensation, unemployment insurance, old age pension programs mandated under applicable laws or other social security regulations and (iv) statutory or common law liens in favor of carriers, warehousemen, mechanics and materialmen, statutory or common law liens to secure claims for labor, materials or supplies and other like liens, which secure obligations to the extent that payment thereof is not in arrears or otherwise due..

"Sublease" means the Commercial Sublease Agreement dated June 1, 1998

between Fairbank Mortgage Corporation and GDC covering the Leased Facility.

"Tax" or "Taxes" means any federal, state, local or foreign income, gross

receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Tax Return" means any return, declaration, report, claim for refund, or

information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Technology" means all inventions, copyrightable works, integrated circuit

masks, discoveries, innovations, know-how, information (including ideas, research and development, know-how, formulas, compositions, technical data, designs, drawings, specifications, pricing and cost information, business and marketing plans and proposals, documentation, and manuals), documentation, computer software, computer hardware, integrated circuits, electronic, electrical and mechanical equipment and all other forms of technology, including improvements, modifications, derivatives or changes, whether tangible or intangible, embodied in any form, whether or not protectible or protected by patent, copyright, mask work right, trade secret law or otherwise, which relate to analog and xDSL communication technologies, all to the extent set forth under Section 2.1(a).

"Trademarks" means any trademarks, service marks, trade dress, and logos,

together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith.

2. Acquisition of Assets by the Buyer.

2.1 Purchase and Sale of Assets. The Seller agrees to sell and transfer

to the Buyer, and the Buyer agrees to purchase from the Seller at the Closing, subject to and upon the terms and conditions contained herein, free and clear of any Lien or Security Interest, the assets of the Division (except as set forth in Section 2.2), as follows, (collectively, the "Acquired Assets"):

(a) All Intellectual Property, goodwill associated therewith, licenses and sublicenses granted to and from third parties in respect thereto and rights thereunder, remedies

against infringements thereof and rights to protection of interest therein, as described in Schedule 2.1(a) hereto;

(b) All equipment and other tangible assets, wherever located, and the associated spare parts, component parts, supplies, maintenance tools, assemblies and accessories, as described in Schedule 2.1(b) (collectively, the "Equipment");

(c) All licenses (other than Intellectual Property), permits, orders, registrations, certificates, variances, approvals and franchises or any pending applications relating to any of the foregoing, including without limitation all governmental permits, licenses, authorizations, approvals and consents, as described in Schedule 2.1(c) (the "Permits");

(d) All contracts, instruments, licenses, sublicenses or other agreements listed on Schedule 2.1(d) (the "Contracts");

(e) All of the Seller's rights under all real property lease agreements, equipment leases, and automobile leases, if any as identified in Schedule 2.1(e) (the "Leases");

(f) All books and records as described in Schedule 2.1(f), including, without limitation, all customer lists of the Division, provided that to the extent that any such books and records do not relate solely to the Division, the Seller shall provide the Buyer with copies of the relevant portions thereof in its possession upon the Buyer's request. The Seller will retain all books and records of the Division relating to the Acquired Assets and the Assumed Liabilities not located at the Leased Facility for a reasonable period of time following the Closing in accordance with its normal document retention policies and make such books and records available to the Buyer at the Buyer's request;

(g) All prepaid expenses of the Seller in connection with the Division calculated as of the Closing Date as identified in Schedule 2.1(g) (the "Prepaid Expenses");

(h) Goodwill of the Division related to the Acquired Assets; and

(i) The Global License Agreement (as defined in Section 2.7 below).

2.2 Excluded Assets. The following are excluded from the definition of Acquired Assets in Section 2.1 (notwithstanding the rights and assets conveyed by the Seller to the Buyer as part of the Acquired Assets):

(a) All cash of the Seller on hand, in bank accounts and other investment accounts as of the Closing Date;

(b) All prepaid Taxes and rights to refunds of Taxes paid by the Seller or its Affiliates;

(c) All rights throughout the world, all service marks, trademarks tradenames and similar registrations (and applications therefor), all product names, assumed or fictitious names and the logos associated therewith, and such other property and intangible rights, relating to, derived from or incorporating the name or words "General DataComm, Inc.," "General DataComm Industries, Inc." or "GDC," together with the goodwill of the Division in connection with which such service marks, trademarks, tradenames and product names are used;

(d) All assets identified in Schedule 2.2(d);

(e) Any assets of the Seller and its Affiliates utilized in providing employee benefits, payroll, administrative, book and record keeping, billing, tax, financial, insurance and other like services to the Division, other than such assets that are tangible and located at the Leased Facility and included as part of the Acquired Assets;

(f) All designs, technical information, drawings, formulae and processes, procedures, proprietary information and trade secrets owned, used or held for use by the Seller or its Affiliates not expressly included as part of the Acquired Assets;

(g) All rights under the Contracts or Leases or with respect to any of the Acquired Assets arising or accruing prior to the Closing Date;

(h) All inventory and accounts receivable of the Seller arising or accruing prior to the Closing Date;

(i) The Claim set forth in Schedule 2.2(i);

(j) Seller's "GDC Retained Technology" as defined in the License and Support Agreement; and

(k) All assets not specifically contemplated by Section 2.1.

2.3 Assumption of Liabilities. On the terms and subject to the conditions

set forth herein and subject to Section 2.4 hereof, from and after the Closing, the Buyer will assume and satisfy or perform when due only the following Liabilities and obligations of the Seller (the "Assumed Liabilities"):

(a) All obligations and Liabilities of the Seller under the Contracts, the Leases and the Permits which arise or accrue from and after the Closing including either (i) to furnish goods, services, and other non-Cash benefits to another party after the Closing or (ii) to pay for goods, services, and other non-Cash benefits that another party will furnish to it after the Closing;

(b) All obligations and Liabilities of the Seller with respect to the Acquired Assets and the Continuing Employees which arise or accrue from and after the Closing;

(c) Any other Liabilities and obligations of the Seller to the extent expressly identified in Schedule 2.3(c);

(d) Any Liability of the Buyer for its costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby; and

(e) Any Liability or obligation of the Buyer under this Agreement or incurred in connection with the making or performance of this Agreement

2.4 Liabilities Not Assumed. Except as expressly set forth in this

Agreement, the Buyer will not assume or perform any Liabilities or obligations of the Seller arising or accruing prior to the Closing not specifically contemplated by Section 2.3 hereof nor any of the following Liabilities and obligations:

(a) Any Liability or obligation of the Seller for Taxes of any Person for any taxable period and any Liability or obligation for Taxes (with respect to the Division or otherwise) attributable to the Acquired Assets for all periods ending on or prior to the Closing Date;

(b) Any Liability of the Seller (with respect to the Division or otherwise) for the unpaid Taxes of any Person for any period prior to the Closing Date, including Taxes imposed on the Seller as a transferee or successor, by contract or otherwise for periods prior to the Closing;

(c) Any Liability or obligation of the Seller (with respect to the Division or otherwise) to indemnify any Person by reason of the fact that such Person was a director, officer, employee or agent of the Seller or was serving at the request of the Seller as a partner, trustee, director, officer, employee or agent of another entity;

(d) Any Liability or obligation of the Seller (with respect to the Division relating to the Acquired Assets or otherwise) as a result of any legal or equitable action or judicial or administrative proceeding initiated at any time caused by any action that occurred or condition that existed prior to the Closing Date and in respect of anything done, suffered to be done or omitted to be done by the Seller or any of its directors, officers, employees or agents prior to the Closing Date;

(e) Any Liability of the Seller for its costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby;

(f) Any Liability or obligation of the Seller under this Agreement or incurred in connection with the making or performance of this Agreement;

(g) Any Liability or obligation of the Seller arising out of any Employee Benefit Plan established or maintained by the Seller for the benefit of past or present employees of any of the Seller, or to which the Seller contributes, or any Liability on the termination of any such plan;

(h) Except for payment of the Acquisition Bonus, any Liability or obligation of the Seller for making payments or providing benefits of any kind to their employees or former

employees for all periods prior to the Closing, including, without limitation, (A) as a result of the sale of the Acquired Assets or as a result of the termination by the Seller of any employees or decision by the Buyer not to hire any such employee, (B) any obligation to provide former employees (including individuals who become former employees by reason of the consummation of the transactions contemplated by this Agreement) COBRA continuation coverage, (C) any Liability or obligation in respect of medical and other benefits for existing and future retirees and for claims made after Closing in respect of costs and expenses incurred prior to Closing, (D) any Liability or obligation in respect of work-related employee injuries or worker's compensation claims, (E) any Liability or obligation in respect of employee bonuses; and

(i) All Safety Liabilities and Costs for all periods prior to the Closing.

2.5 Inability to Obtain Consents and Approvals. Except as set forth in

Schedule 2.5, to the extent that any Contract, Lease, Permit, or other Acquired

Asset to be transferred to the Buyer is not capable of being validly and fully assigned, transferred, conveyed or reissued to the Buyer without consent or approval, and such consents and approvals have not been obtained prior to Closing or do not remain in full force and effect at or immediately after the Closing, no such assignment, transfer, conveyance or reissuance shall be deemed to have occurred until such consent or approval has been obtained, and the Seller shall, after the Closing, use its reasonable commercial efforts to: (i) obtain such consents or approvals, (ii) cooperate in any lawful arrangement designed to provide to the Buyer the benefits of any Contract, Lease, Permit or other Acquired Asset as to which such consent or approval has not been so obtained or does not remain in full force and effect, and (iii) enforce, at the request of the Buyer and at the Buyer's expense, for the benefit of the Buyer, any rights of the Seller under or with respect to any such Contract, Lease, Permit or other Acquired Asset against all other Persons (including termination of the foregoing in accordance with the terms thereof upon the election of the Buyer), provided that the Seller shall not be required to take any action pursuant to this section that could reasonably be expected to result in the Seller incurring liability to a third party. To the extent that the Buyer is provided the benefits pursuant to this Section 2.5 of any such Contract, Lease, Permit or other Acquired Asset, the Buyer shall perform the obligations of the Seller thereunder or in connection therewith with respect to periods following the Closing as if they were Assumed Liabilities.

2.6 Use of Name. After the Closing, the Buyer agrees that if any of the

Acquired Assets of the Seller, including, without limitation, any promotional materials or printed forms, bear the General DataComm, Inc., General DataComm Industries, Inc. or GDC name or letters, the Buyer shall, prior to the use of such assets, delete or cover the General DataComm, Inc., General DataComm Industries, Inc. or GDC name or letters and clearly indicate that the Division is no longer affiliated with GDC or any Affiliate thereof, except that it may, for a period of ninety (90) days after the Closing Date, use the remaining catalogs, forms, stationery, brochures and similar materials (the items described above in this Section 2.6 are referred to collectively as "Supplies")

which contain the General DataComm, Inc., General DataComm Industries, Inc. or GDC name or letters, provided such Supplies are (a) used only in connection with the Acquired Assets and (b) conspicuously marked with the company name of the Buyer and clearly indicate that the Buyer is not an Affiliate of General DataComm, Inc., General DataComm Industries, Inc. or GDC's affiliates.

2.7 Global Patent License Agreement. At or immediately prior to the

Closing, the Seller and the Licensee agree to enter into a Patent License Agreement in the form attached hereto as Exhibit A (the "Global License Agreement"), for the consideration as set forth in Section 2.8 below.

2.8 Purchase Price. At the Closing, the Buyer and the Licensee agree to

pay an aggregate of Sixteen Million Three Hundred Twelve Thousand Five Hundred Ninety-Three Dollars (\$16,312,593.00) (the "Purchase Price") to the following parties in the following manner:

(a) One Million Dollars (\$1,000,000.00) to Greater Bay Trust Company, Palo Alto, California, as escrow agent (the "Escrow Agent"), to be held, administered and released in accordance with the terms of an Escrow Agreement to be executed by the Seller, the Buyer and Escrow Agent at the Closing in the form of Exhibit B which will be used to satisfy indemnification claims of the Buyer

pursuant to Section 8 hereof; and

(b) Two Million Five Hundred Thousand Dollars (\$2,500,000) to the Escrow Agent for the Continuing Employees (assuming not less than all entitled employees of the Division become Continuing Employees, as defined in Section 5.1 below) (the "Acquisition Bonus Escrow Agent"), to be held, administered and released in accordance with the terms of an escrow agreement to be executed by the Seller, the Buyer and Acquisition Bonus Escrow Agent at the Closing in the form of Exhibit C ("Bonus Pool Disbursement Agreement") which will be used for payment to Continuing Employees as an Acquisition Bonus in accordance with the terms of the Acquisition Bonus Disbursement Agreement, and the Acquisition Bonus Agreement and the Employment Agreements in substantially the form attached as Exhibits D and E, respectively and to the extent not paid to said Continuing Employees thereunder, shall be paid to the Seller;

(c) Twelve Million Eight Hundred Twelve Thousand Five Hundred Ninety-Three Dollars (\$12,812,593.00) to the Seller in cash payable by wire transfer upon such wire instructions delivered by the Seller at the Closing.

Of the total amount of the Purchase Price, Eight Million One Hundred Fifty-Six Thousand Two Hundred Ninety-Six and Fifty Cents (\$8,156,296.50) shall be paid to the Seller by each of the Buyer and the Licensee in connection with the purchase of the Acquired Assets. The parties agree that all license fees previously paid by the Buyer to the Seller in accordance with the June License Agreement shall be retained by the Seller without recourse by the Buyer, and shall not be considered part of the Purchase Price, notwithstanding anything to the contrary set forth in the June License Agreement.

2.9 The Closing. The closing of the transactions contemplated by this

Agreement (the "Closing") shall take place at the offices of Wilson Sonsini

Goodrich & Rosati, in Palo Alto, California, concurrent with the execution of this Agreement and the collateral documents identified in Section 2.10 below (the "Closing Date"). The Closing shall be deemed to have occurred upon the

Closing Date, subject only to the receipt by the parties of the HSR Approval (as defined in Section 3.3 below). Pending such receipt, the parties agree to place all documents relevant to the Closing (as defined Section 2.10) and the Purchase Price in escrow for distribution in accordance with terms as mutually agreed.

2.10 Deliveries at the Closing. At the Closing, the parties will deliver

those agreements, certificates, opinions, instruments and documents required to complete the transactions contemplated by this Agreement as are identified in Exhibit F attached hereto and any other documents that the parties to this

Agreement and their respective counsel believe are reasonably necessary or appropriate (collectively, the "Closing Documents").

Following such delivery and promptly upon receipt of the HSR Approval, the Seller will take all action as may be necessary to put the Buyer in possession and operating control of the Acquired Assets.

At any time and from time to time after the Closing, at the request of the Buyer and without further consideration, the Seller will execute and deliver such other instruments of sale, transfer, conveyance, assignment and confirmation and take such action as the Buyer may reasonably determine is necessary to transfer, convey and assign to the Buyer, and to confirm the Buyer's title to or interest in the Acquired Assets, and promptly upon receipt of the HSR Approval, to put the Buyer in actual possession and operating control thereof and to assist the Buyer in exercising all rights with respect thereto except as otherwise expressly provided in the Agreement.

At any time and from time to time after the Closing, at the request of the Seller and without further consideration, the Buyer will execute and deliver such other instruments of sale, transfer, conveyance, assignment and confirmation and take such action as the Seller may reasonably determine is necessary to effectuate the purpose and intent of this Agreement, and promptly upon receipt of the HSR Approval, to enable the Seller to exercise all rights of the Seller in accordance with the terms of this Agreement.

2.11 Allocation of Purchase Price. The Parties agree that the allocation

of the Purchase Price for the Acquired Assets shall be as determined by the Buyer within 30 days after the Closing, except the allocation for fixed assets shall be fixed at the Seller's book value therefor.

2.12 License and Support Agreement. The parties shall enter into the

License and Support Agreement substantially in the form attached as Exhibit G.

3. Representations and Warranties of the Seller.

The Seller represents and warrants to the Buyer that the statements contained in this Section 3 are correct and complete as of the date of this Agreement, except as set forth in the Disclosure Letter accompanying this Agreement and initialed by the Parties (the "Disclosure Letter"). The

Disclosure Letter will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Section 3.

3.1 Organization of the Seller. The Seller is a corporation duly

organized, validly existing and in good standing under the laws of the state or other jurisdiction of its incorporation.

3.2 Authorization of Transaction. The Seller has the power and authority

(including full corporate power and authority) to execute and deliver this Agreement and any other agreements

related to the transactions contemplated by this Agreement and to perform its obligations hereunder. All corporate and other actions or proceedings to be taken by or on the part of the Seller to authorize and permit the execution and delivery by it of this Agreement and the instruments required to be executed and delivered by it pursuant hereto, the performance by the Seller of its obligations hereunder, and the consummation by the Seller of the transactions contemplated herein, have been duly and properly taken. This Agreement has been duly executed and delivered by the Seller and constitutes the legal, valid and binding obligation of the Seller, enforceable in accordance with its terms and conditions.

3.3 Noncontravention. Neither the execution and the delivery of this

Agreement, any other agreements related to the transactions contemplated by this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Section 2 above), will (i) violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which the Seller is subject or any provision of the charter or bylaws of the Seller or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under any agreement, contract, lease, license, instrument, Lien, Security Interest or other arrangement to which the Seller is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Security Interest upon any of their assets) except where such violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice or Security Interest would not have a material adverse effect on the Acquired Assets or the Assumed Liabilities or on the ability of the Seller to consummate the transactions contemplated by this Agreement. The Seller does not need to give any notice to, make any filing with, or obtain any authorization, consent or approval of any government or governmental agency in order for the parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Section 2 above), except for the pre-merger notification requirements (the "HSR Approval") of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act").

3.4 Brokers' Fees. The Seller has no Liability to pay any fees or

commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which the Buyer could become liable or obligated.

3.5 Title to Assets. The Seller has good and valid title to, or a valid

and subsisting leasehold interest in, and the power to sell the Acquired Assets being sold by it, free and clear of all Liens and Security Interests and the Acquired Assets are assignable and transferable to the Buyer. Section 3.5 of the Disclosure Letter sets forth a true and complete list of all Liens and Security Interests related to the Acquired Assets the release of which by a third party is required to satisfy the requirements of this Agreement.

3.6 Financial Statements. Attached hereto as Exhibit H are (i) an

unaudited statement of Assets of the type that would be Acquired Assets as of September 30, 1998 (the "Asset Statement"); and (ii) the related unaudited statement of operating profit for the twelve-month period ended September 30, 1998 reflecting revenue from the Division and associated expenses (the "Income Statement" and collectively with the Asset Statement, the "Financial Statements"). The

Financial Statements have been prepared in all material respects in accordance with the books and records of the Division. The Asset Statement fairly presents in all material respects the assets of the Division of the type that would be Acquired Assets as at the date indicated, and the Income Statement fairly presents in all material respects the results of operations of the Division for the period indicated. No representation or warranty, express or implied, is made in this Agreement as to the prospects or future success of the Division.

3.7 Indebtedness; Guarantees. The Seller does not have any indebtedness

for money borrowed or for the deferred purchase price of property or services, capital lease obligations, conditional sale or other title retention agreements relating to the Acquired Assets or the Assumed Liabilities. The Seller is not a guarantor of or otherwise liable for any Liability or obligation of any other Person for any matter which relates to or affects the Acquired Assets or the Assumed Liabilities.

3.8 Legal and Other Compliance. The Seller is in compliance with all

applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings and charges thereunder) of federal, state, local and foreign governments (and all agencies thereof) where any failure of compliance would materially and adversely affect any of the Acquired Assets or the Assumed Liabilities and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand or notice has been filed or commenced against the Seller alleging any failure so to comply.

3.9 Taxes. No unresolved claim has ever been made by an authority in a

jurisdiction where the Seller does not file Tax Returns and in which any of the Acquired Assets are subject that any Acquired Asset may be subject to taxation by that jurisdiction. There are no Security Interests relating to the Acquired Assets that arose in connection with any failure (or alleged failure) to pay any Tax. There is no dispute or claim concerning any Tax Liability relating to any Acquired Asset either (A) claimed or raised by any authority in writing or (B) as to which the Seller has Knowledge based upon contact with any agent of such authority. The Seller has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). The Seller is not a party to any Tax allocation or sharing agreement that would affect any Acquired Asset or Assumed Liability.

3.10 Real Property. The Sublease is legal, valid, binding, enforceable,

and in full force and effect. The Seller is not in breach or default, and no event has occurred which, with notice or lapse of time, would constitute a breach or default by the Seller so as to permit termination, modification, or acceleration thereunder.

3.11 Environmental Matters.

(a) The Seller has not transported, stored, used, manufactured, released or exposed its employees or any other person to any Chemical Substance or Extremely Hazardous Substance in the Leased Facility in violation of any applicable statute, rule, regulation, order or law.

(b) No Environmental Permits are required to be obtained by the Seller under any Environmental Laws applicable to the Leased Facility. To the Knowledge of the Seller, the Seller

is in compliance in all material respects with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws applicable to the Leased Facility or contained in any regulation, code, plan, order, decree, judgment, notice or demand letter issued, entered, promulgated or approved thereunder. The Seller has not received any notice or is aware of any past or present condition or practice of the businesses conducted by the Seller in the Leased Facility which forms or could be reasonably expected to form the basis of any material claim, action, suit, proceeding, hearing or investigation against the Acquired Assets, arising out of the manufacture, processing, distribution, use, treatment, storage, transport, or handling, or the Release or threatened Release into the Environment, of any Chemical Substance or Extremely Hazardous Substance by the Seller.

3.12 Property, Plant and Equipment. The Seller makes no representations

and warranties regarding the operating or other condition of the Equipment, which is being transferred to the Buyer "as is."

3.13 Intellectual Property. The Seller is not making any representations

or warranties to the Buyer in this Agreement or otherwise as to the validity of the Patents or as to the non-infringement by the Seller's Intellectual Property of any patent rights or other intellectual property of any third party, except as set forth in this Section 3.13.

(a) The Seller owns or has the right to use pursuant to license, sublicense, agreement, or permission all Intellectual Property.

(b) To the knowledge of the Seller, none of the Intellectual Property has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any intellectual property rights of third parties. To the knowledge of the Seller, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property.

(c) Section 3.13(c) of the Disclosure Letter identifies each patent or registration which has been issued to or acquired by the Seller with respect to any of the Intellectual Property, identifies each pending patent application or application for registration which the Seller has made with respect to any of its Intellectual Property, and identifies each current license, agreement, or other permission which the Seller has granted to any third party with respect to any of its Intellectual Property (together with any exceptions). The Seller has delivered to the Buyer correct and complete copies of all such patents, registrations, applications, licenses, agreements, and permissions (as amended to date) and has made available to the Buyer correct and complete copies of all other written documentation evidencing ownership and prosecution (if applicable) of each such item. All licenses, agreements, and other permissions granted by the Seller with respect to the Intellectual Property are assignable to the Buyer. Section 3.13(c) of the Disclosure Letter also identifies each trade name or unregistered trademark used by the Division in connection with any of its businesses. With respect to each item of Intellectual Property required to be identified in Section 3.13(c) of the Disclosure Letter:

(i) the Seller owns or has the right to use the item, free and clear of any Lien, Security Interest, license, or other restriction;

(ii) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(iii) to the knowledge of the Seller, no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or is threatened against the Seller which challenges the legality, validity, enforceability, use, or ownership of the item; and

(iv) the Seller has not and has never agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the item and which would constitute an Assumed Liability.

(d) Section 3.13(d) of the Disclosure Letter identifies each item of Intellectual Property that any third party licenses to the Division or to the Seller and that the Seller uses pursuant to license, sublicense, agreement, or permission. The Seller has delivered to the Buyer correct and complete copies of all such licenses, sublicenses, agreements, and permissions, as amended to date. With respect to each item of Intellectual Property required to be identified in Section 3.13(d) of the Disclosure Letter:

(i) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect;

(ii) the license, sublicense, agreement, or permission is assignable by the Seller to the Buyer;

(iii) the Seller is not in breach or default and no event has occurred which with notice or lapse of time would constitute a breach or default by the Seller so as to permit termination, modification, or acceleration thereunder of any license, sublicense, agreement, or permission;

(iv) the Seller has not repudiated any provision of any license, sublicense, agreement or permission;

(v) to the knowledge of the Seller, no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the knowledge of the Seller, is threatened which challenges the legality, validity, or enforceability of the underlying item of Intellectual Property; and

(vi) the Seller has not granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission.

(e) Solely for the purpose of this Section 3.13, "the knowledge of the Seller" shall mean and be confined to the actual knowledge of any officer of the Seller, William Conway and Emil Ghelberg, and outside patent counsel, based solely upon any written notice from any third party received within two years prior to the Closing Date.

(f) International Telecommunications Union. The Patents identified in

Section 3.13(f) of the Disclosure Letter are the only patents which are owned by the Seller that relate to the V-34 or V-90 transmission standards. To the Knowledge of the Seller, utilization of the inventions disclosed in the claims of the Patents identified in Section 3.13(f) of the Disclosure Letter is essential for compliance with standards promulgated by the International Telecommunications Union. Section 3.13(f) of the Disclosure Letter identifies each such Patent by patent number and identifies the specific standard for which each such Patent is essential.

3.14 Tangible Assets. The Seller makes no representations and warranties

regarding the machinery, equipment, and other tangible assets necessary for the conduct of the Division's business as presently conducted and presently proposed to be conducted, which are being transferred to the Buyer "as is."

3.15 Contracts. With respect to each Contract included as part of the

Acquired Assets, (A) the Contract is legal, valid, binding, enforceable, and in full force and effect, and is assignable by the Seller to the Buyer; (B) the Seller is not in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default by the Seller so as to permit termination, modification, or acceleration, under the Contract; and (C) the Seller has not repudiated any provision of the Contract.

3.16 Litigation. Section 3.16 of the Disclosure Letter sets forth each

instance in which (i) the Seller or any Acquired Asset is subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) the Seller is a party or is threatened (based on written notice) to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator, which will have a material adverse effect on any Acquired Asset or Assumed Liability.

3.17 Consents. Section 3.17 of the Disclosure Letter sets forth a true,

correct and complete list of the consents or approvals which are required for the acquisition of the Acquired Assets, and the assumption of the Assumed Liabilities.

4. Representations and Warranties of the Buyer and the Licensee.

The Buyer and the Licensee represent and warrant to the Seller that the statements contained in this Section 4 are correct and complete as of the date of this Agreement.

4.1 Organization of the Buyer. The Buyer is a corporation duly organized,

validly existing and in good standing under the laws of the jurisdiction of its incorporation.

4.2 Authority for Agreement. Each of the Buyer and the Licensee has full

power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. All corporate and other actions or proceedings to be taken by or on the part of the Buyer and the Licensee to authorize and permit the execution and delivery by each of them of this Agreement and the instruments required to be executed and delivered by each

of them pursuant hereto, the performance by each of the Buyer and the Licensee of its obligations hereunder, and the consummation by the Buyer and the Licensee of the transactions contemplated herein, have been duly and properly taken. This Agreement has been duly executed and delivered by the Buyer and the Licensee and constitutes the legal, valid and binding obligation of the Buyer and the Licensee, enforceable against them in accordance with its terms and conditions.

4.3 Noncontravention. Neither the execution and the delivery of this

Agreement or any agreement related to the transactions contemplated by this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Section 2 above), will (i) violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which the Buyer or the Licensee is subject or any provision of the charter or bylaws of either or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under any agreement, contract, lease, license, instrument or other arrangement to which the Buyer or the Licensee is a party or by which it is bound or to which any of its assets is subject, except where such violation, conflict, breach, default, acceleration, termination, modification, cancellation or failure to give notice would not have an adverse effect on the ability of the Buyer or the Licensee to consummate the transactions contemplated by this Agreement. Neither of the Buyer nor the Licensee needs to give any notice to, make any filing with, or obtain any authorization, consent or approval of any government or governmental agency in order for the parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Section 2 above), except for the pre-merger notification requirements of the HSR Act.

4.4 Brokers' Fees. Neither of the Buyer nor the Licensee has any

Liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which the Seller could become liable or obligated.

5. Covenants of the Parties.

5.1 Employee Matters.

(a) Schedule 5.1(a) lists the employees of the Seller who are employed by the Division and who have agreed with the Buyer to accept "at will" employment after the Closing (the "Continuing Employees") and those Continuing

Employees who are key to the Buyer's operations (the "Key Employees"). Each

Continuing Employee has agreed to release the Seller from any liability to pay the Acquisition Bonus, as defined in each Continuing Employee's employment agreement with GDC. For all Continuing Employees, the Seller agrees to (i) terminate the employment with the Seller immediately prior to Closing and to pay any and all Liabilities (other than the Acquisition Bonus) as relating to such termination, including, without limitation any payments and benefits due such Continuing Employees pursuant to accrued salary and wages, pension, retirement, savings, health, welfare and other benefits and similar payments of the Continuing Employees and (ii) provide to each Continuing Employee any notice (which notice shall be reasonably acceptable to the Buyer) required under any law or regulations in respect of such termination including, without limitation COBRA.

(b) Prior to the Closing, each of the Key Employees has entered into an employment offer letter, in substantially the form attached as Exhibit E, and a non-competition agreement in the form attached as Exhibit I.

5.2 Consolidated Financial Statements. The Seller shall provide the Buyer sufficient financial information concerning the Division to enable the Buyer to prepare consolidated financial statements which satisfy the requirements (if applicable) relating to the acquisition of a "significant subsidiary" in accordance with the requirements of Regulation S-X.

5.3 Regulatory Filings; Reasonable Efforts. The Buyer and the Seller have each filed with the United States Federal Trade Commission (the "FTC") and the Antitrust Division of the United States Department of Justice ("DOJ") Notification and Report Forms relating to the transactions contemplated herein as required by the HSR Act, as well as comparable pre-merger notification forms required by the merger notification or control laws and regulations of any applicable jurisdiction, as agreed to by the parties. The Buyer and the Seller each shall promptly (a) supply the other with any information which may be required in order to effectuate such filings and (b) supply any additional information which reasonably may be required by the FTC, the DOJ or the competition or merger control authorities of any other jurisdiction and which the parties may reasonably deem appropriate.

5.4 Access to Records after Closing. For a period of three years after the Closing Date, the Seller and its representatives on one hand and the Buyer and its representatives on the other shall have reasonable access to any books, records, documents, files and correspondence to the extent that such access may reasonably be required in connection with matters relating to or affected by the operation of the Division, in the case of the Seller prior to the Closing Date, and in the case of the Buyer after the Closing Date. Such access shall be afforded upon receipt of reasonable advance notice, during normal business hours and at the expense of the party seeking access.

5.5 Transfer Taxes. The Seller and the Buyer shall promptly pay in equal amounts any sales and use Taxes on the transfer of the Acquired Assets hereunder.

5.6 Covenant Not to Compete and Solicitation of Employees. For a period of two years from and after the Closing Date ("Non-Competition Period"), each party shall not directly or indirectly, without the prior written consent of the other party, engage anywhere in the Restricted Territory, or have any ownership interest in (except for ownership of one percent (1%) or less of any entity whose securities have been registered under the Securities Act or the Exchange Act), or participate in the financing, operation, management or control of, any firm, partnership, corporation, entity or business (other than the other party) that engages or participates in a "PC-Tel Competing Business Purpose" with respect to the Seller or a "GDC Competing Business Purpose" with respect to the Buyer or Licensee. Notwithstanding the foregoing, in the event either the Buyer or the Seller is acquired by a third party which is engaged in the Competing Business Purpose of the other party, the foregoing restrictions under this Section 5.6 shall terminate. The term "PC-Tel Competing Business Purpose" shall consist of (i) design, technology and patent licensing of analog, cable, ADSL, or VDSL modems, and (ii) designing, manufacturing, marketing, and selling chipsets and/or software for analog, cable, ADSL and VDSL modems and the term "GDC Competing Business

Purpose" shall consist of designing, manufacturing, marketing, selling or servicing data, voice or video communications systems products such as (but not limited to) ATM switches, time division multiplexers, access products and network management software. Systems products are sold in the form of stand-alone and rack-mounted products, as well as individual printed circuit boards. The GDC Competing Business Purpose shall not include products that are sold as chipsets or stand-alone software, except as spare parts to such system products or as embedded software or firmware. Also, GDC Competing Business Purpose shall not include design, technology or patent licensing of analog, cable, ADSL, or VDSL modems. Notwithstanding the foregoing, in the event either of the Buyer or the Seller is acquired by a third party (whether by way of merger, reorganization, sale of assets or transfer of more than 50% of outstanding voting securities) which is engaged in the PC-Tel Competing Business Purpose (in the case of an acquisition of the Seller) or in the GDC Competing Business Purpose (in the case of an acquisition of the Buyer), the foregoing non-competition covenant of the Seller (in the case of the acquisition of the Seller) and of the Buyer (in the case of the acquisition of the Buyer) shall terminate upon the completion of such acquisition. The term "Restricted Territory" shall mean each and every country, province, state, city or other political subdivision of the world. During the Non-Competition Period, none of the parties shall, directly or indirectly, solicit, encourage or take any other action which is intended to induce or encourage, or has the effect of inducing or encouraging any employee of any other party to terminate his or her employment with such party.

5.7 Bulk Sales Laws. The parties agree, subject to the requirements of

Section 6.2(a) below, that the Seller shall not be required to comply with the requirements of any applicable bulk sales laws.

5.8 Post-Closing Operating Adjustments. Within not more than ninety (90)

days following the receipt of the HSR Approval, each of the Seller and the Buyer shall agree upon the operating expenses (including corporate overhead but not in excess of the monthly average therefor based on the last five months) and incomes (both actual and accrued) which result to the Seller during the period of time from the Closing Date through and including the foregoing adjustments after the date of the HSR Approval, and an appropriate payment in the net amount of such expenses and incomes shall be paid to the appropriate party. The intent of such payment shall be to ensure that the economic effect of the transactions contemplated by this Agreement shall be fully taken into account as if actual control of the Acquired Assets and the Assumed Liabilities by the Buyer, and the employment by the Buyer of the Continuing Employees, had occurred at the Closing Date.

5.9 Collection of Accounts Receivable. For a period of not to exceed one

hundred twenty (120) days after the Closing Date, the Buyer agrees, at Seller's request, to use its commercially reasonable efforts to cooperate with and assist the Seller in the collection of any accounts receivable which arise under Contracts with respect to periods prior to the Closing Date. Any amounts so collected by the Buyer at any time shall be held in trust by the Buyer and promptly remitted to the Seller upon receipt. The Seller agrees to reimburse the Buyer for any reasonable out-of-pocket expenses which the Buyer may incur in connection with its collection efforts hereunder. All payments which are payable under the June License Agreement for periods prior to the Closing are the property of and shall be paid to the Seller.

5.10 Litigation Support. In the event and for so long as the Seller is

prosecuting, contesting or defending any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with any fact, status, condition, activity, occurrence, event, failure to act or transaction with respect to the Acquired Assets or Liabilities on or prior to the Closing Date, the Buyer agrees to (i) cooperate on a reasonable basis with the Seller and its counsel and make available information in its possession relevant thereto and (ii) make available its employees on a reasonable basis, as necessary, to provide testimony, to be deposed, to act as witnesses and to assist counsel, all during normal business hours without undue interference with the Buyer's business and with the responsibilities of such employees. In connection with Buyer's performance of its obligations under this paragraph, the Seller shall pay to Buyer (x) out-of-pocket expenses incurred by the Buyer and (y) \$750.00 per day for each employee who is required to perform litigation support in excess of 15 days.

5.11 License and Support Agreement. The Seller and the Buyer agree to the

terms of the License and Support Agreement, including but not limited to the provisions of Section 6 thereof. The parties agree that the terms and provisions of the License and Support Agreement shall be construed separate and apart from the terms of this Agreement, and neither this Agreement nor the License and Support Agreement shall be limited by, or affect, the respective provisions of either agreement.

5.12 401(k) Plan. At the Buyer's election and with the consent of any

affected Continuing Employee, as soon as administratively practicable after the Closing, the Seller shall take any actions necessary or appropriate under the Seller's 401(k) plan to permit a transfer of the account balances which are attributable to the Continuing Employees, from the Seller's 401(k) plan to the 401(k) plan of the Buyer. If such an election is made by the Buyer, then the Buyer may determine, with the consent of any affected Continuing Employee, whether such account balances shall be transferred to the Buyer's 401(k) plan in the aggregate or at the election of each Continuing Employee.

6. Survival of Representations and Warranties; Indemnification.

6.1 Survival of Representations and Warranties. The representations and

warranties of the Seller, the Buyer and the Licensee contained in this Agreement or in any instrument delivered pursuant to this Agreement shall terminate on June 30, 1999.

6.2 Indemnification by the Seller.

(a) Indemnification by the Seller. The Seller shall indemnify and

hold the Buyer, and its officers, directors, agents and Affiliates, harmless against and in respect of all claims, losses, Liabilities, Liens, damages, deficiencies, costs and expenses, including reasonable attorneys' fees and expenses of investigation and defense (hereinafter individually, a "Loss" and

collectively, "Losses") incurred by the Buyer, or its officers, directors,

agents, or Affiliates, directly or indirectly, as a result of (i) any inaccuracy or breach of a representation or warranty of the Seller contained in this Agreement or in any instrument or certificate executed and delivered by the Seller to the Buyer (or any Affiliate or subsidiary of the Buyer) in connection with the transactions contemplated by this Agreement, or (ii) any failure by the Seller to perform or comply with any covenant contained in this

Agreement, or (iii) any Liability of the Seller that is not an Assumed Liability hereunder and is not in excess of the amounts (where identified) of the Assumed Liabilities set forth in Schedule 2.3(c), or (iv) any Liability resulting from

failure of the Seller to comply with any applicable bulk sales laws; (provided, however, that the Seller shall have no obligation to indemnify the Buyer for any Environmental Liabilities and Costs except to the extent any Environmental Liabilities and Costs result from a breach of Section 3.11).

(b) Limitation on Liability. Notwithstanding the foregoing, the

Seller shall not be obligated to indemnify the Buyer, or any of its officers, directors, agents and Affiliates, pursuant to this Section 6.2(b) unless and until the amount of all Losses incurred by the Buyer, and its officers, directors, agents and Affiliates taken as a group, exceeds Two Hundred Twenty-Five Thousand Dollars (\$225,000) in the aggregate, in which event the Seller shall indemnify, pursuant to this Section 6.2(b), the Buyer, and its officers, directors and agents and Affiliates, for all Losses incurred by them in the aggregate from the first dollar of Losses. Except for any willful or fraudulent breach of the representations, warranties or covenants contained herein, the parties agree that the Buyer's sole and exclusive recourse against the Seller for any Loss or claim of Loss arising out of or relating to this Agreement shall not exceed \$1,000,000 (and any accrued interest) and shall be expressly limited to the indemnification provisions of this Section 6.

(c) Escrow Fund. At the Closing Date, the Buyer, the Seller, and the

Escrow Agent shall execute the Escrow Agreement, and the Buyer shall deposit with the Escrow Agent in an interest-bearing account (or with the Closing Escrow Agent for disbursement to the Escrow Agent following the date of receipt of the HSR Approval) as partial payment of the Purchase Price hereunder, the sum of \$1,000,000 (the "Escrow Cash") to be held in the Escrow Fund and administered in

accordance with the Escrow Agreement attached as Exhibit B. The Escrow Fund, as

such term is used herein, shall include the Escrow Cash deposited pursuant to this Section 6 and any interest thereon, less any payments or distributions made pursuant to the Escrow Agreement. All amounts included within the Escrow Fund shall be deemed the property of the Seller unless distributed to the Buyer in accordance with the provisions of the Escrow Agreement. The Escrow Agent shall administer the Escrow Fund, as it may exist from time to time, on behalf of the Buyer and the Seller, for the purposes of securing the Seller's indemnity obligations under Section 6 hereof.

(i) Termination of Escrow Fund. Subject to the resolution of

pending claims prior to the expiration of the Escrow Fund, the Escrow Fund shall remain in existence during the period of time (the "Escrow Period") between the

Closing Date and 5:00 p.m., Pacific Standard Time, on June 30, 1999 (the "Escrow Release Date").

(ii) Protection of Escrow Fund. The Escrow Agent shall hold and

safeguard the Escrow Fund during the Escrow Period, shall treat such fund as a trust fund in accordance with the terms of this Agreement and not as the property of the Buyer and shall hold and dispose of the Escrow Fund only in accordance with the terms hereof.

(iii) Claims Upon Escrow Fund.

(A) Upon receipt by the Escrow Agent at any time on or before the last day of the Escrow Period of a certificate signed by any officer of the Buyer (an "Officer's Certificate") stating that the Buyer has paid or

properly accrued or reasonably anticipates that it will have to pay Losses pursuant to Claims made during the Escrow Period in an aggregate stated amount to which the Buyer is entitled to indemnity pursuant to this Agreement, and specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid or properly accrued, or the basis for such anticipated liability, and the nature of the misrepresentation, breach of warranty or claim to which such item is related, the Escrow Agent shall deliver to the Buyer out of the Escrow Fund, as promptly as practicable, an amount equal to such Losses as indemnity out of the Escrow Fund; provided, however, that with respect to Losses the Buyer reasonably anticipates it will have to pay, pursuant to Claims made during the Escrow Period, Escrow Cash shall not be delivered to the Buyer by the Escrow Agent until such time as the Buyer actually must pay such Losses.

(B) At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such Officer's Certificate shall be delivered to the Seller by the Buyer and for a period of thirty (30) days after delivery of the Officer's Certificate to the Escrow Agent, the Escrow Agent shall make no delivery of the cash from the Escrow Fund pursuant to this Section 6(c) unless the Escrow Agent shall have received written authorization from the Seller to make such delivery. After the expiration of such thirty (30) day period, the Escrow Agent shall, without further notice or authorization of any kind, make delivery of the amount of Losses from the Escrow Fund in accordance with Section 5(a) above, provided that no such payment or delivery shall be made if the Seller delivers written notice to the Escrow Agent and to the Buyer prior to the expiration of such thirty (30) day period that the Seller disputes in good faith the Claim set forth in the Officer's Certificate, with the basis for such dispute set forth in reasonable detail.

(iv) Resolution of Conflicts; Arbitration.

(A) In case the Seller shall object in writing to any claim made in any Officer's Certificate as described in Section 6.2(c)(iii) ("Claim"), the Buyer shall have thirty (30) days to respond in a written

statement to the Seller and the Escrow Agent. If after such thirty (30) day period there remains a dispute as to any Claim, the Seller and the Buyer shall attempt in good faith for sixty (60) days to agree upon the rights of the respective parties with respect to each of such Claim. If the Seller and the Buyer should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to conclusively rely on any such memorandum and shall make the distributions from the Escrow Fund as promptly as practicable only in accordance with the terms thereof or of the Escrow Agreement.

(B) If no such agreement can be reached, either the Buyer or the Seller may, by written notice to the other, demand arbitration of the matter in accordance with Section 7.3 of this Agreement, unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount

is ascertained or both parties agree to arbitration. The decision of the arbitrators as to the validity and amount of any Claim in such Officer's Certificate shall be binding and conclusive upon the parties to this Escrow Agreement, and, notwithstanding anything in Section 6 hereof, the Escrow Agent shall be entitled to act in accordance with such decision and make or withhold payments out of the Escrow Fund in accordance therewith.

(d) Third Party Claims.

(i) If any third party shall notify any of the parties or its Affiliates with respect to any matter (hereinafter referred to as a "Third Party Claim"), which may result in Losses, then the party receiving the notice (the

"Indemnitee") shall give notice to the other party (the "Indemnitor") as

promptly as practical and in any event within not more than twenty (20) days of the Indemnitee's becoming aware of any such Third Party Claim or of facts upon which any such Third Party Claim will be based setting forth such material information with respect to the Third Party Claim as is reasonably available to the Indemnitee; provided, however, that no delay or failure on the part of the

Indemnitee in notifying the Indemnitor shall relieve the Indemnitor from any obligation hereunder unless the Indemnitor is thereby materially prejudiced (and then solely to the extent of such prejudice).

(ii) In case any Third Party Claim is asserted against the Indemnitee or its Affiliates, and the Indemnitee notifies the Indemnitor thereof pursuant to Section 6(d)(i) above, the Indemnitor will be entitled, if it so elects by written notice delivered to the Indemnitee within ten (10) days after receiving the Indemnitee's notice, to assume the defense thereof, at the expense of the Indemnitor, so long as:

(A) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief;

(B) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnitee, likely to establish a precedential custom or practice adverse to the continuing business interests of the Indemnitee which could have a material adverse effect on the business or operations of the Indemnitee; and

(C) counsel selected by the Indemnitor is reasonably acceptable to the Indemnitee.

If the Indemnitor so assumes any such defense, it shall conduct the defense of the Third Party Claim actively and diligently. The Indemnitor shall not compromise or settle such Third Party Claim or consent to entry of any judgment in respect thereof without the prior written consent of the Indemnitee; provided, however, that if such compromise, settlement or consent involves the payment of cash only and the Indemnitee does not so consent, the Indemnitor's liability with respect to any such Claim shall be limited to the amount of the proposed compromise, settlement or consent. If the Indemnitor is not entitled to assume the defense of the Third Party Claim, counsel may nevertheless be selected by the Indemnitor, at its expense, subject to the approval of the Indemnitee, which shall not be unreasonably withheld.

(iii) In the event that the Indemnitor assumes the defense of the Third Party Claim in accordance with Section 6.2(d)(ii) above, the Indemnitor or its Affiliates may retain separate counsel and participate in the defense of the Third Party Claim, but the fees and expenses of such counsel shall be at the expense of the Indemnitor (and will permit the Indemnitor to control such defense) unless the Indemnitor or its Affiliates shall reasonably determine that there is a conflict of interest between or among the Indemnitor or its Affiliates and the Indemnitor with respect to such Third Party Claim, in which case the reasonable fees and expenses of such counsel will be borne by the Indemnitor. The Indemnitor or its Affiliates will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnitor. The Indemnitor will cooperate in the defense of the Third Party Claim and will provide full access to documents, assets, properties, books and records reasonably requested by the Indemnitor and material to the claim and will make available all officers, directors and employees reasonably requested by the Indemnitor for investigation, depositions and trial.

(iv) In the event that the Indemnitor fails or elects not to assume the defense of the Indemnitor or its Affiliates against such Third Party Claim, which the Indemnitor had the right to assume under Section 6.2(d)(ii) above, the Indemnitor or its Affiliates shall have the right to undertake the defense, consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim in any manner it may deem appropriate (and the Indemnitor or its Affiliates need not consult with, or obtain any consent from, the Indemnitor in connection therewith); provided, however, that except with the

written consent of the Indemnitor, no settlement of any such claim or consent to the entry of any judgment with respect to such Third Party Claim shall alone be determinative of the validity of the claim. In each case, the Indemnitor or its Affiliates shall conduct the defense of the Third Party Claim actively and diligently, and the Indemnitor will cooperate with the Indemnitor or its Affiliates in the defense of that claim and will provide full access to documents, assets, properties, books and records reasonably requested by the Indemnitor and material to the claim and will make available all individuals reasonably requested by the Indemnitor for investigation, depositions and trial.

6.3 Indemnification by the Buyer.

(a) Indemnification by the Buyer. The Buyer shall indemnify and hold the Seller, and its officers, directors, agents and Affiliates, harmless against and in respect of all claims, losses, Liabilities, Liens, damages, deficiencies, costs and expenses, including reasonable attorneys' fees and expenses of investigation and defense (hereinafter individually, a "Loss" and collectively, "Losses") incurred by the Seller, or its officers, directors, agents or

Affiliates, directly or indirectly, as a result of (i) any inaccuracy or breach of a representation or warranty of the Buyer contained in this Agreement or in any instrument or certificate executed and delivered by the Buyer to the Seller (or any Affiliate or subsidiary of the Seller) in connection with the transactions contemplated by this Agreement, or (ii) any failure by the Buyer to perform or comply with any covenant contained in this Agreement, or (iii) any Assumed Liability.

(b) Limitation on Liability. Notwithstanding the foregoing, the Buyer shall not be obligated to indemnify the Seller, or any of its officers, directors, agents and Affiliates, pursuant to this Section 6.3(b) unless and until the amount of all Losses incurred by the Seller, and its officers,

directors, agents and Affiliates taken as a group, exceeds Two Hundred Twenty-Five Thousand Dollars (\$225,000) in the aggregate, in which event the Buyer shall indemnify, pursuant to this Section 6.3(b), the Seller, and its officers, directors, agents and Affiliates, for all Losses incurred by them in the aggregate from the first dollar of Losses. Except for any willful or fraudulent breach of the representations, warranties or covenants contained herein, the parties agree that the Seller's sole and exclusive recourse against the Buyer for any Loss or claim of Loss arising out of or relating to this Agreement shall not exceed \$1,000,000 and shall be expressly limited to the indemnification provisions of this Section 6.

7. Miscellaneous.

7.1 Press Releases and Public Announcements. The parties shall issue a mutually acceptable press release regarding the subject matter of this Agreement. No party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other party; provided, however, that the Seller may make any public disclosure it believes in good faith that it is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case the Seller will advise the Buyer prior to making the disclosure).

7.2 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns.

7.3 Arbitration. All disputes or controversies (whether of law or fact) of any nature whatsoever arising from or relating to this Agreement and the transactions contemplated hereby shall be decided by arbitration by the American Arbitration Association in accordance with the rules and regulations of that Association. The arbitrators shall be selected as follows: The Buyer and the Seller shall, within thirty (30) days of the date of demand by either party for arbitration, each select one independent, qualified arbitrator and the two arbitrators so selected shall select the third arbitrator within thirty (30) days after their appointment as party arbitrators. Each such party reserves the right to object to any individual arbitrator who shall be employed by or affiliated with a competing organization. In the event objection is made, the American Arbitration Association (the "Association") shall resolve any dispute regarding the propriety of an individual arbitrator acting in that capacity. The Parties shall each bear the expenses of the arbitrator chosen by it, and shall bear one-half the expenses of the independent arbitrator. Hearings in the proceeding shall commence within one hundred twenty (120) days of the selection of the neutral arbitrator. Arbitration shall take place in Chicago, Illinois. At the request of either such party, arbitration proceedings will be conducted confidentially; in such case all documents, testimony and records shall be received, heard and maintained by the arbitrators in confidence under seal, available for the inspection only by the Association, the Seller and the Buyer and their respective attorneys and their respective experts who shall agree in advance and in writing to receive all such information confidentially and to maintain such information in confidence. The arbitrators, who shall act by majority vote, shall be able to decree any and all relief of an equitable and legal nature, including but not limited to such relief as a temporary restraining order, a temporary and/or a permanent injunction, and shall also be able to award damages, with or without an accounting and costs. The decree or award rendered by the arbitrators may be entered as a final and binding judgment in any court having jurisdiction thereof.

The decision of the arbitrator shall be in writing, set forth the basis for the decision and cannot amend or exceed the terms of this Agreement. Reasonable notice of the time and place of arbitration shall be given to all persons, other than the parties, as shall be required by law, in which case such persons or those authorized representatives shall have the right to attend and/or participate in all the arbitration hearings in such manner as the law shall require.

7.4 Entire Agreement. This Agreement (including the Confidentiality

Agreement between the parties dated as of September 3, 1998, documents referred to herein and attached hereto) constitutes the entire agreement between the parties and supersedes any prior understandings, agreements or representations by or between the parties, written or oral, to the extent they related in any way to the subject matter hereof.

7.5 Succession and Assignment. This Agreement shall be binding upon and

inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other party, which approval will not unreasonably be withheld. Notwithstanding the foregoing, this Agreement may be assigned without approval in connection with the acquisition (whether by way of merger, reorganization, sale of assets or transfer of more than 50% of outstanding voting securities) by a third party of the Buyer or the Seller.

7.6 Counterparts. This Agreement may be executed in one or more

counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

7.7 Headings. The section headings contained in this Agreement are

inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

7.8 Notices. All notices, requests, demands, claims, and other

communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) upon confirmation of facsimile, (ii) when sent by overnight delivery and (iii) when mailed by registered or certified mail return receipt requested and postage prepaid at the following address:

If to the Seller: General DataComm, Inc.

 1579 Straits Turnpike
 Middlebury, CT 06762
 Tel: (203) 574-1118
 Fax: (203) 758-8507
 Attention: Chief Financial Officer

Copy to: Weisman Celler Spett & Modlin, P.C.
----- 445 Park Avenue
New York, NY 10022
Tel: (212) 371-5400
Fax: (212) 371-5407
Attention: Howard S. Modlin, Esq.

If to the Buyer: PC-Tel, Inc.
----- 70 Rio Robles
San Jose, CA 95134
Tel: (408) 965-2100
Fax: (408) 383-0455
Attention: Chief Financial Officer

Copy to: Wilson Sonsini Goodrich & Rosati
----- 650 Page Mill Road
Palo Alto, CA 94304
Tel: (650) 493-9300
Fax: (650) 493-6811
Attention: Douglas H. Collom, Esq.

Any party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other party notice in the manner herein set forth.

7.9 Governing Law. This Agreement shall be governed by and construed in

accordance with the domestic laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

7.10 Amendments and Waivers. No amendment of any provision of this

Agreement shall be valid unless the same shall be in writing and signed by the Buyer and the Seller. No waiver by any party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

7.11 Severability. Any term or provision of this Agreement that is invalid

or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

7.12 Expenses. Whether or not the transactions contemplated hereby are

consummated, all fees and expenses, including any legal, accounting, investment banking and other professional services, costs and expenses, incurred in connection with the negotiation and/or effectuation of the transactions contemplated hereby shall be the obligation of the respective party incurring such fees and expenses.

7.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules

identified in this Agreement are incorporated herein by reference and made a part hereof.

7.14 Specific Performance. Each of the parties acknowledges and agrees

that the other party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Parties agrees that the other party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter in addition to any other remedy to which it may be entitled, at law or in equity.

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the "Escrow Agreement") is made and entered into as of December 22, 1998 by and among PC-Tel, Inc., a Delaware corporation ("PC-Tel" or the "Buyer"), General DataComm, Inc., a Delaware corporation ("GDC" or the "Seller"), and Greater Bay Trust Company, as escrow agent (the "Escrow Agent").

RECITALS

A. PC-Tel, a subsidiary of PC-Tel and GDC are parties to that certain Asset Purchase Agreement dated as of December 22, 1998 (the "Purchase Agreement"), providing for the purchase by PC-Tel of substantially all of the assets of Technology Alliance Group, a division of GDC. Capitalized terms used but not defined herein shall have the meanings set forth in the Purchase Agreement.

B. One of the conditions to the closing of the Purchase Agreement, as set forth in the Purchase Agreement, is the execution and delivery of this Escrow Agreement.

C. Pursuant to Section 6.2(c) of the Purchase Agreement, PC-Tel and its subsidiary shall deposit with the Escrow Agent One Million Dollars (\$1,000,000.00) (the "Escrow Cash") into an escrow fund (the "Escrow Fund") to be used to satisfy any potential indemnification obligations of GDC to PC-Tel and its directors, officers and Affiliates ("Indemnified Persons") for Losses under Section 6.2 of the Purchase Agreement.

D. This Escrow Agreement sets forth the basis on which the Escrow Agent will receive and hold, and make disbursements from, the Escrow Fund and the duties for which the Escrow Agent will be responsible.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Appointment. PC-Tel and GDC hereby appoint the Escrow Agent as escrow agent to serve in such capacity in accordance with the terms and conditions set forth in this Escrow Agreement. The Escrow Agent hereby accepts such appointment.

2. Asset Purchase Agreement. The Escrow Agent acknowledges receipt of a copy of the Purchase Agreement; however, except for reference thereto for definitions of certain words or terms not defined herein, the Escrow Agent is not charged with any duties or responsibilities with respect to the Purchase Agreement.

3. Escrow Cash. At the Closing, PC-Tel and its Subsidiary shall deposit the Escrow Cash to the Federated Investors Government Obligations Fund or, if such fund is not available, in a mutually agreed interest-bearing account directly with the Escrow Agent, the receipt of which shall be acknowledged, and the same accepted, by the Escrow Agent as escrow agent hereunder. The Escrow

Fund, as such term is used herein, shall include the Escrow Cash deposited pursuant to this Section 3 and any interest earned thereon, less any payments or distributions made hereunder.

4. Interest.

The parties acknowledge that payment of any interest earned on the funds invested in this escrow will be subject to backup withholding penalties unless either a properly completed Internal Revenue Service Form W8 or W9 certification is submitted to Escrow Agent.

5. Claims Upon Escrow Fund.

(a) Upon receipt by the Escrow Agent on or before the last day of the Escrow Release Date of a certificate signed by any officer of PC-Tel (an "Officer's Certificate") (i) stating that PC-Tel has paid or properly accrued or

reasonably anticipates that it will have to pay Losses pursuant to Claims made during the Escrow Period, in an aggregate stated amount to which PC-Tel is entitled to indemnity pursuant to the Purchase Agreement, and (ii) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid or properly accrued, or the basis for such anticipated liability, and the nature of the misrepresentation, breach of warranty or claim to which such item is related, the Escrow Agent shall deliver to PC-Tel out of the Escrow Fund, as promptly as practicable, an amount equal to such Losses as indemnity out of the Escrow Fund; provided, however, that with respect to Losses PC-Tel reasonably anticipates it will have to pay pursuant to Claims made during the Escrow Period, Escrow Cash shall not be delivered to PC-Tel by the Escrow Agent until such time as PC-Tel actually must pay such Losses, the Escrow Agent shall, subject to the provisions of Section 5(b) below, deliver to PC-Tel, as promptly as practicable, an amount out of the Escrow Fund equal to such Losses as indemnity. The Escrow Agent shall be entitled to conclusively rely on such Officer's Certificate and shall make such distributions from the Escrow Fund only in accordance with the terms thereof.

(b) At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such Officer's Certificate shall be delivered to GDC by PC-Tel and for a period of thirty (30) days after delivery of the Officer's Certificate to the Escrow Agent, the Escrow Agent shall make no delivery of the cash from the Escrow Fund pursuant to Section 5(a) above unless the Escrow Agent shall have received written authorization from GDC to make such delivery. After the expiration of such thirty (30) day period, the Escrow Agent shall, without further notice or authorization of any kind, make delivery of the amount of Losses from the Escrow Fund in accordance with Section 5(a) above, provided that no such payment or delivery shall be made if GDC delivers written notice to the Escrow Agent and to PC-Tel prior to the expiration of such thirty (30) day period that GDC disputes in good faith the Claim set forth in the Officer's Certificate, with the basis for such dispute set forth in reasonable detail.

6. Resolution of Conflicts; Arbitration.

(a) In case GDC shall object in writing to any claim made in any Officer's Certificate as described in Section 5(b) ("Claim"), PC-Tel shall have

thirty (30) days to respond in a written

statement to GDC and the Escrow Agent. If after such thirty (30) day period there remains a dispute as to any Claim, GDC and PC-Tel shall attempt in good faith for sixty (60) days to agree upon the rights of the respective parties with respect to each of such Claim. If GDC and PC-Tel should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to conclusively rely on any such memorandum and shall make the distributions from the Escrow Fund as promptly as practicable only in accordance with the terms thereof or of the Escrow Agreement.

(b) If no such agreement can be reached, either PC-Tel or GDC may, by written notice to the other, demand arbitration of the matter in accordance with Section 7.3 of the Purchase Agreement, unless the amount of the damage or loss is at issue in pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration. The decision of the arbitrators as to the validity and amount of any Claim in such Officer's Certificate shall be binding and conclusive upon the parties to this Escrow Agreement, and, notwithstanding anything in Section 5 hereof, the Escrow Agent shall be entitled to act in accordance with such decision and make or withhold payments out of the Escrow Fund in accordance therewith.

7. Escrow Provisions.

(a) The Escrow Agent may rely and shall be protected in acting or refraining from acting upon any written notice, request, waiver, consent, receipt or other paper or document from any duly authorized officer or agent of PC-Tel or any other Indemnified Person or from GDC, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth of any information therein contained, that the Escrow Agent in good faith believes to be genuine and as to which the Escrow Agent shall have no actual notice of invalidity, lack of authority or other deficiency.

(b) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection therewith, except for any liability arising from its own negligence, willful misconduct or bad faith.

(c) The Escrow Agent shall be entitled to consult with competent and responsible counsel of its choice with respect to the interpretation of the provisions hereof, and any other legal matters relating hereto, and shall be fully protected in taking any action or omitting to take any action in good faith in accordance with the advice of such counsel.

(d) PC-Tel and GDC jointly and severally agree to indemnify and hold the Escrow Agent harmless for any and all claims, liabilities, costs, payments and expenses, including without limitation, fees of counsel (who may be selected by the Escrow Agent) for court actions, for anything done or omitted by it in the performance of this Escrow Agreement, except as a result of the Escrow Agent's own negligence, willful misconduct or bad faith.

(e) All evidence of investment of funds in the Escrow Fund (including, but not limited to, savings account passbooks, certificates, notes and other similar items) shall be kept in a place

of safekeeping at an office of the Escrow Agent, or with a safe deposit company, including any such safe deposit company owned in whole or in part by the Escrow Agent or by any affiliate of the Escrow Agent. The Escrow Agent shall keep accurate accounts of all income and interest earned by the funds in the Escrow Fund.

(f) All fees and related expenses of the Escrow Agent for its services hereunder (including fees of its legal counsel) shall be paid by PC-Tel. Such fees and expenses shall be determined in accordance with the fee schedule attached hereto as Schedule A or as otherwise provided to PC-Tel.

(g) None of the provisions contained in this Escrow Agreement shall cause the Escrow Agent to advance its own funds in the performance of its duties herein described.

8. Successor Escrow Agent. The Escrow Agent, or any successor, may resign

at any time upon giving written notice to PC-Tel and GDC thirty (30) days before such resignation shall take effect. In addition, PC-Tel and GDC may terminate the Escrow Agent's appointment as escrow agent upon giving written notice (jointly signed by PC-Tel and GDC) to the Escrow Agent thirty (30) days before such termination shall take effect. If the Escrow Agent shall resign, be terminated or be unable to serve, then it shall be succeeded by such bank or trust company jointly named by PC-Tel and GDC in such thirty (30) day period, or if no such appointment is made by that time, then by a bank or trust company appointed by a court of competent jurisdiction upon petition by either PC-Tel or GDC (in which action the other party shall be afforded a reasonable opportunity to participate) to appoint a successor escrow agent. The Escrow Agent shall transfer the Escrow Cash to its successor and shall thereupon be discharged, and the successor shall thereupon succeed to all of the rights, powers and duties and shall assume all of the obligations of the Escrow Agent originally named in this Escrow Agreement.

9. Payment of Taxes. GDC shall be treated as the owner of the Escrow Cash

for all tax and other purposes while and to the extent that the Escrow Cash is held by the Escrow Agent. The Escrow Agent shall cause all information statements to be prepared in accordance with this Section 9 and all parties shall prepare their tax returns accordingly.

10. Termination.

(a) Subject to the resolution of pending claims prior to the expiration of the Escrow Fund ("Pending Claims"), the Escrow Fund shall remain in existence during the period of time (the "Escrow Period") between the Closing Date and 5:00 p.m., Pacific Standard Time, on June 30, 1999 (the "Escrow Release Date").

(b) Promptly following the Escrow Release Date and upon receipt of instructions from PC-Tel and GDC, the Escrow Agent shall, to the extent funds are available therefor in the Escrow Fund and in the following order of priority:

(i) withhold funds in the Escrow Fund in sufficient amount, or to the extent funds are available therefor, to satisfy the maximum amount of Losses estimated by PC-Tel in its written

instructions relating to any and all Pending Claims noticed as provided in Sections 5 and 6 above until resolution of such Pending Claims;

(ii) distribute any funds remaining after the allocations and distributions provided for in clause (i) above to GDC.

(c) Promptly following the Termination Date and upon receipt of instructions from GDC, the Escrow Agent shall, to the extent funds are available therefor in the Escrow Fund, distribute any funds remaining in the Escrow Fund to GDC.

11. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given or delivered if delivered personally or by express courier, mailed by registered or certified mail (return receipt requested) or sent by telecopy, confirmation received, to the parties at the following addresses and telecopy numbers (or at such other address or number for a party as shall be specified by like notice):

(a) If to PC-Tel to:

PC-Tel, Inc.
70 Rio Robles
San Jose, CA 95134
Attn: Chief Financial Officer
Tel: (408) 965-2100
Fax: (408) 383-0455

with a copy to:

Wilson Sonsini Goodrich & Rosati
650 Page Mill Road
Palo Alto, California 94304-1050
Attn: Douglas H. Collom, Esq.
Tel: (650) 493-9300
Fax: (650) 493-6811

(b) if to GDC, to:

General DataComm, Inc.
1579 Straits Turnpike
Middlebury, CT 06762
Tel: (203) 574-1118
Fax: (203) 758-8507
Attention: Chief Financial Officer

with a copy to:

Weisman Celler Spett & Modlin, P.C.
445 Park Avenue
New York, NY 10022
Attention: Howard S. Modlin, Esq.
Tel: (212) 371-5400
Fax: (212) 371-5407

(c) If to the Escrow Agent:

Greater Bay Trust Company
400 Emerson Street
Palo Alto, California 94301
Attn: Corporate Trust Department
Telecopy No.: 650-473-1326
Telephone No.: 650-614-5720

12. Successors and Assigns. This Escrow Agreement and all action taken

hereunder in accordance with its terms shall be binding upon and inure to the benefit of PC-Tel, its subsidiaries, and their respective successors and assigns, the Escrow Agent and its successors, and GDC and its successors, assigns, heirs, executors, administrators and legal representatives.

13. Entire Agreement. This Escrow Agreement constitutes the entire

agreement among the parties with the Escrow Agent, and among the other parties with respect to this particular escrow except as set forth under the Purchase Agreement, and it supersedes all prior or concurrent arrangements or understandings with respect thereto. The other parties hereby acknowledge and agree that the Escrow Agent's duties and obligations hereunder are limited, and that the Escrow Agent shall have no duties or obligations except as clearly specified herein, and no implied duties or obligations shall be read into this Escrow Agreement against the Escrow Agent, nor shall the Escrow Agent have any responsibility for the enforcement of the obligations of any parties hereto.

14. Waivers. No waiver by any party hereto of any condition or of any

breach of any provision of this Escrow Agreement shall be effective unless in writing. No waiver by any party of any such condition or breach, in any one instance, shall be deemed to be a further or continuing waiver of any such condition or breach or a waiver of any other condition or breach of any other provision contained herein.

15. Counterparts. This Escrow Agreement may be executed in several

counterparts, each of which shall be deemed an original, but such counterparts shall together constitute one and the same instrument.

16. Governing Law. This Escrow Agreement shall be governed by and

construed in accordance with the laws of the State of California.

17. Consequential Losses. In no event shall the Escrow Agent be liable

for special, indirect or consequential loss or damage of any kind whatsoever
(including but not limited to lost profits), even if the Escrow Agent has been
advised of the likelihood of such loss or damage and regardless of the form of
action.

"PC-TEL" PC-TEL, INC.

By: /s/ Peter Chen

Title: President & CEO

"GDC" GENERAL DATACOMM, INC.

By: /s/ FR Crow

Title: Vice President

"ESCROW AGENT"

GREATER BAY TRUST COMPANY

By: /s/ Hall Palmer

Title: Hall Palmer

Executive Vice President
and Senior Trust Officer

SCHEDULE A

ESCROW AGENT FEE SCHEDULE

The Escrow Fee shall be \$5,000.

BONUS POOL DISBURSEMENT AGREEMENT

THIS BONUS POOL DISBURSEMENT AGREEMENT (the "Bonus Disbursement Agreement")

is made and entered into as of December 22, 1998 by and among PC-Tel, Inc., a Delaware corporation ("PC-Tel" or the "Company"), General DataComm, Inc., a Delaware corporation ("GDC"), and Greater Bay Trust Company, as escrow agent (the "Escrow Agent") and each of the Employees (as defined below).

RECITALS

A. PC-Tel, a subsidiary of PC-Tel and GDC are parties to that certain Asset Purchase Agreement dated as of December 22, 1998 (the "Purchase Agreement"), providing for the purchase by PC-Tel of substantially all of the assets of Technology Alliance Group, a division of GDC. Capitalized terms used but not defined herein shall have the meanings set forth in the Purchase Agreement.

B. Pursuant to Section 2.8(b) of the Purchase Agreement, PC-Tel and its subsidiary shall deposit with the Escrow Agent the sum of Two Million, Five Hundred Thousand Dollars (\$2,500,000) (the "Escrow Amount") into an escrow fund (the "Escrow Fund") as an acquisition bonus and employee retention program for those former employees of GDC who are continuing as employees of PC-Tel following completion of the Asset Purchase, as set forth in Schedule A attached hereto (individually, an "Employee" and collectively, the "Employees"). Each Employee has entered into an Acquisition Bonus Agreement with the Company, a copy of which has been provided to the Escrow Agent (the "Bonus Agreement"), which sets forth the terms and conditions for the disbursement of the Escrow Fund. Capitalized terms used but not defined herein shall have the meanings set forth in the Bonus Agreement.

C. This Escrow Agreement sets forth the basis on which the Escrow Agent will receive and hold, and make disbursements from, the Escrow Fund and the duties for which the Escrow Agent will be responsible.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Appointment. PC-Tel, GDC and each of the Employees hereby appoint the Escrow Agent as escrow agent to serve in such capacity in accordance with the terms and conditions set forth in this Escrow Agreement. The Escrow Agent hereby accepts such appointment.
2. Asset Purchase Agreement. The Escrow Agent acknowledges receipt of a copy of the Purchase Agreement; however, except for reference thereto for definitions of certain words or terms not defined herein, the Escrow Agent is not charged with any duties or responsibilities with respect to the Purchase Agreement.
3. Escrow Cash. At the Closing, as partial payment of the Purchase Price under the Purchase Agreement, PC-Tel and a subsidiary of PC-Tel shall deposit the Escrow Cash directly with the

Escrow Agent, the receipt of which shall be acknowledged, and the same accepted, by the Escrow Agent as escrow agent hereunder. The Escrow Cash shall be held in trust by the Escrow Agent and shall be invested, promptly upon receipt and pending disbursement in securities and investments as may be directed by each of the Employees through self-directed investments to the extent permitted by the Escrow Agent. Schedule B attached hereto sets forth a current list of those

investment vehicles which will be available through the Escrow Agent. The Escrow Agent shall establish and separately administer a discrete account for each Employee in respect of that portion of the Escrow Fund which is allocable to such Employee and which is identified in each Employee's Bonus Agreement (the "Allocable Amount"). The Escrow Fund, as such term is used herein, shall include the aggregate of the Allocable Amounts of all the Employees comprising the Escrow Cash; the separate accounts holding the Allocable Amounts shall each be increased by the amount of any appreciation, interest or other property which may result from such Employee-directed investment, less any disbursements or investment-related losses.

4. Interest. The parties acknowledge that payment of any appreciation, interest or other property earned on the funds invested in this escrow will be subject to backup withholding penalties unless either a properly completed Internal Revenue Service Form W8 or W9 certification is submitted to Escrow Agent.

5. Claims Upon Escrow Fund.

(a) Within five days of each Payment Date, PC-Tel shall notify GDC, the Escrow Agent and each Employee in writing of the amount of the Bonus to be paid to each Employee in accordance with the terms of the Bonus Agreement. Such instruction shall provide for the deduction of any federal, state and other withholding taxes that may be required to be deducted in connection with such payment. Upon receipt of such instruction, the Escrow Agent shall promptly provide for the disbursement of the Escrow Fund to each of the Employees in the amounts specified in the instruction.

(b) In the event of the termination of the employment of any Employee with PC-Tel for any reason prior to the third anniversary of the Closing, within not more than thirty days of such event, PC-Tel shall notify GDC, the Escrow Agent and the affected Employee in writing of the event of such termination and any instruction for the disbursement of a Bonus payment (net of any applicable withholding taxes) in accordance with the terms of the Bonus Agreement. In the event the instruction provides for the disbursement of a Bonus payment to the affected Employee, such disbursement shall be made as soon as practicable following receipt of the instruction. In the event the instruction provides for the remittance of a portion of the Escrow Fund to GDC, no withholding shall be required and the required remittance shall be made as promptly as practicable following receipt of both the instruction of PC-Tel and the written consent of the affected Employee.

(c) In the event PC-Tel shall fail to provide the required instruction within the time period specified in Section 5(a) or (b) above, the affected Employee or GDC as applicable may provide the required instruction to the Escrow Agent; provided, however, no disbursement of funds may be made without the written consent of PC-Tel.

(d) In the event there is any Allocable Amount which for any reason remains undisbursed to the Employees in accordance with the terms hereof upon the expiration of this Agreement, such Allocable Amount shall be remitted to GDC.

6. Escrow Provisions.

(a) In acting in accordance with the provisions of this Agreement, the Escrow Agent may rely and shall be protected in acting or refraining from acting upon any written notice, request, waiver, consent, receipt or other paper or document from any Employee or any duly authorized officer or agent of PC-Tel, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth of any information therein contained, that the Escrow Agent in good faith believes to be genuine and as to which the Escrow Agent shall have no actual notice of invalidity, lack of authority or other deficiency.

(b) The Escrow Agent shall not be liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything which it may do or refrain from doing in connection therewith, except for any liability arising from its own negligence, willful misconduct or bad faith.

(c) The Escrow Agent shall be entitled to consult with competent and responsible counsel of its choice with respect to the interpretation of the provisions hereof, and any other legal matters relating hereto, and shall be fully protected in taking any action or omitting to take any action in good faith in accordance with the advice of such counsel.

(d) PC-Tel agrees to indemnify and hold the Escrow Agent harmless for any and all claims, liabilities, costs, payments and expenses, including without limitation, fees of counsel (who may be selected by the Escrow Agent) for court actions, for anything done or omitted by it in the performance of this Escrow Agreement, except as a result of the Escrow Agent's own negligence, willful misconduct or bad faith.

(e) All evidence of investment of funds in the Escrow Fund (including, but not limited to, savings account passbooks, certificates, notes and other similar items) shall be kept in a place of safekeeping at an office of the Escrow Agent, or with a safe deposit company, including any such safe deposit company owned in whole or in part by the Escrow Agent or by any affiliate of the Escrow Agent. The Escrow Agent shall keep accurate accounts of all income and interest earned by the funds in the Escrow Fund.

(f) All fees and related expenses of the Escrow Agent for its services hereunder (including fees of its legal counsel) shall be paid by PC-Tel. Such fees and expenses shall be determined in accordance with the fee schedule attached hereto as Schedule C or as otherwise provided to PC-Tel.

(g) None of the provisions contained in this Escrow Agreement shall cause the Escrow Agent to advance its own funds in the performance of its duties herein described.

7. Successor Escrow Agent. The Escrow Agent, or any successor, may

resign at any time upon giving written notice to PC-Tel, GDC and each of the Employees thirty (30) days before such resignation shall take effect. In addition, PC-Tel and GDC may terminate the Escrow Agent's appointment as escrow agent upon giving written notice to the Escrow Agent and each of the Employees thirty (30) days before such termination shall take effect. If the Escrow Agent shall resign, be terminated or be unable to serve, then it shall be succeeded by such bank or trust company named by PC-Tel and GDC in such thirty (30) day period, or if no such appointment is made by that time, then by a bank or trust company appointed by a court of competent jurisdiction upon petition by PC-Tel to appoint a successor escrow agent. The Escrow Agent shall transfer the Escrow Cash to its successor and shall thereupon be discharged, and the successor shall thereupon succeed to all of the rights, powers and duties and shall assume all of the obligations of the Escrow Agent originally named in this Escrow Agreement.

8. Payment of Taxes. Each of the Employees shall be treated as the owner

of the Allocable Amount owing to such Employee for all tax purposes, but only upon disbursement of the Allocable Amount to such Employee. Escrow Agent shall cause all information statements to be prepared in accordance with this Section 8 and all parties shall prepare their tax returns accordingly.

9. Expiration. Unless extended in writing by the parties hereto, the

escrow provided for in this Escrow Agreement shall expire upon written notice from PC-Tel and GDC.

10. Notices. All notices and other communications hereunder shall be in

writing and shall be deemed given or delivered if delivered personally or by express courier, mailed by registered or certified mail (return receipt requested) or sent by telecopy, confirmation received, to the parties at the following addresses and telecopy numbers (or at such other address or number for a party as shall be specified by like notice):

(a) If to PC-Tel to:

PC-Tel, Inc.
70 Rio Robles
San Jose, CA 95134
Attn: Chief Financial Officer
Tel: (408) 965-2100
Fax: (408) 383-0455

(b) If to GDC to:

General DataComm, Inc.
1579 Straits Turnpike
Middlebury, CT 06762
Attn: Chief Financial Officer
Tel: (203) 574-1118
Fax: (203) 758-8507

(c) if to an Employee, at the Employee's address as set forth opposite such Employees name in Exhibit A to the Bonus Agreement.

11. Nonassignability. Notwithstanding anything to the contrary contained

herein, no Allocable Amount or any beneficial interest therein may be sold, assigned or otherwise transferred, including by operation of law, by any Employee or be taken or reached by any legal or equitable process in satisfaction of any debt or other liability of such Employee. Any such attempted transfer in violation of this Section shall be null and void.

12. Successors and Assigns. This Escrow Agreement and all action taken

hereunder in accordance with its terms shall be binding upon and inure to the benefit of PC-Tel, its subsidiaries, GDC and their respective successors and assigns, the Escrow Agent and its successors, and each Employee and such Employee's successors, assigns, heirs, executors, administrators and legal representatives.

13. Entire Agreement. This Escrow Agreement constitutes the entire

Agreement among the parties with the Escrow Agent, and among the other parties with respect to this particular escrow except as set forth under the Purchase Agreement, and it supersedes all prior or concurrent arrangements or understandings with respect thereto. The other parties hereby acknowledge and agree that the Escrow Agent's duties and obligations hereunder are limited, and that the Escrow Agent shall have no duties or obligations except as clearly specified herein, and no implied duties or obligations shall be read into this Escrow Agreement against the Escrow Agent, nor shall the Escrow Agent have any responsibility for the enforcement of the obligations of any parties hereto.

14. Waivers. No waiver by any party hereto of any condition or of any

breach of any provision of this Escrow Agreement shall be effective unless in writing. No waiver by any party of any such condition or breach, in any one instance, shall be deemed to be a further or continuing waiver of any such condition or breach or a waiver of any other condition or breach of any other provision contained herein.

15. Counterparts. This Escrow Agreement may be executed in several

counterparts, each of which shall be deemed an original, but such counterparts shall together constitute one and the same instrument.

16. Governing Law. This Escrow Agreement shall be governed by and

construed in accordance with the laws of the State of California. Any dispute between PC-Tel and any Employee arising hereunder shall be resolved by arbitration in accordance with the terms of the Employee's employment letter with the Company.

17. Consequential Losses. In no event shall the Escrow Agent be liable

for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

IN WITNESS WHEREOF, the parties have executed or caused this Bonus Pool Disbursement Agreement to be duly executed as of the day and year first above written.

"PC-TEL " PC-TEL, INC.
By: _____
Title: _____

"ESCROW AGENT" GREATER BAY TRUST COMPANY
By: _____
Title: _____

"EMPLOYEE"

(signature)

(print name)

"GDC" GENERAL DATACOMM, INC.
By: _____
Title: _____

SCHEDULE A

LIST OF EMPLOYEES

Emil Ghelberg
William Conway
Tat Ho
Yuri Goldstein
Caroline Delphia
Brian Hannigan
James Kay
Sandra Knobloch
Val Maizenberg
Khalid Syed
Vitaly Drucker
Terry Engel
William Hanna
David Moon
Yuriy Okunev
Michael Richardson
Qin Wang
Eldad Zeira

SCHEDULE B

LIST OF INVESTMENT VEHICLES

SCHEDULE C

ESCROW AGENT FEE SCHEDULE

For each individual Employee, a \$300 annual fee shall be charged. For each transaction performed on behalf of the Employee, a \$20 fee shall be charged.

PC-TEL, INC.
ACQUISITION BONUS AGREEMENT

This Acquisition Bonus Agreement is entered into as of December 22, 1998 between PC-Tel, Inc., a Delaware corporation (the "Company") and _____, a former employee of the Technology Alliance Group of General DataComm, Inc., a Delaware corporation ("GDC"), who is continuing as an employee of the Company (the "Employee").

RECITALS

A. Pursuant to an employment offer letter between the Employee and the Company to which this Agreement is attached (the "Employment Letter"), the Employee has agreed to become an employee of the Company in connection with the transactions contemplated by the Asset Purchase Agreement dated as of December 22, 1998 between the Company, a subsidiary of the Company and GDC (the "Purchase Agreement").

B. Under the terms of the Employee's employment arrangements with GDC, the Employee is entitled to participate in a defined portion of any purchase consideration received by GDC in connection with the sale of the assets of the Technology Alliance Group.

C. The Company and the Employee desire to provide for a cash retention arrangement substantially in accordance with the terms of the Employee's arrangements with GDC, on the terms and conditions set forth below.

The parties therefore agree as follows, effective upon the commencement of the Employee's employment with the Company as contemplated by the Purchase Agreement.

1. Term of Agreement. This Agreement shall become effective only upon

completion of the transactions contemplated under the Purchase Agreement, and shall remain in effect until the earlier to occur of the disbursement to the Employee of all funds to which the Employee is entitled hereunder, or the third anniversary of the closing date of the transactions contemplated by the Purchase Agreement.

2. Bonus Pool. A bonus pool in the aggregate amount of up to \$2,500,000

(depending on the number of Technology Alliance Group employees who elect to continue as employees of the Company) has been established using a portion of the purchase proceeds payable by the Company under the Purchase Agreement and has been deposited with Greater Bay Trust Company, Palo Alto, California (the "Agent"). Of this pool, the sum of \$_____ has been set aside for the benefit of the Employee (the "Bonus"). The Bonus shall be held in trust by the Agent and shall be invested, promptly upon receipt and pending disbursement in accordance with this Agreement and the Bonus Pool Disbursement Agreement between the Company, GDC, the Employee and the Agent dated as of December 22), in securities and investments as directed by the Employee through self-directed investment to the extent permitted by the Agent. For purposes of this Agreement, "Bonus" as used

herein shall be deemed to include any appreciation, interest or other property which may result from such Employee-directed investment, less any disbursements or investment-related losses. All risk of loss with respect to the investment of the Bonus shall be borne entirely by the employee.

3. Participation. The right of the Employee to participate in and -----
receive the Bonus may not be terminated except as provided in this Agreement.

4. Schedule of Payments. Subject to the provisions of the Agreement, the -----
Bonus payable to the Employee shall be paid by the Agent by check, delivered to the Employee at the Company's location in Waterbury, Connecticut, as soon as practicable following each of the dates (measured from the closing date of the Purchase Agreement) (the "Payment Dates") and in the fractional amounts (expressed as a percentage of the total Bonus remaining as of any Payment Date) as follows:

| Date ----- | Percentage Amount ----- |
|-----------------|-----------------------------|
| Closing | 15% of the remaining Bonus |
| 1st Anniversary | 30% of the remaining Bonus |
| 2nd Anniversary | 50% of the remaining Bonus |
| 3rd Anniversary | 100% of the remaining Bonus |

5. Employment Condition. The distribution of the Bonus to the Employee -----
is contingent upon the Employee's continuation as an employee of the Company on each Payment Date as provided above, subject to the following:

(i) In the event the Employee's employment by the Company has been terminated on or before any Payment Date as a result of the Employee's voluntary resignation or as a result of termination for Cause (as defined below), then the entire remaining Bonus shall be remitted promptly by the Agent to GDC unless the Employee shall dispute the Company's stated basis for termination, in which event no remittance shall be made to GDC until such dispute has been resolved and the Employee has indicated in writing his or her consent to such resolution.

(ii) In the event the Employee's employment by the Company has been terminated (whether by the Employee or the Company) as a result of a termination for Good Reason (as defined below) or as a result of disability (as defined in the Company's then existing employment policies) or death, then the full remaining amount of the Employee's Bonus shall immediately vest and be paid by the Agent to the Employee or the Employee's estate.

(a) Termination for Cause. For purposes of this Agreement only, Cause -----
shall mean (i) a material breach by the Employee of any obligation or covenant required to be performed or observed by the Employee pursuant to this Agreement, the Employment Letter or the Proprietary

Information and Inventions Agreement which the Company requires of its employees as a condition of employment; (ii) any violation by the Employee of any statutory or common law duty of loyalty or fiduciary duty to the Company; (iii) the refusal or continued failure of the Employee to perform the Employee's duties under the Employment Letter or the Proprietary Information and Inventions Agreement; or (iv) the personal or professional conduct of the Employee which, in the reasonable and good faith judgment of the Company, injures or tends to injure the Company's reputation or otherwise adversely affects the Company's interests. The Employee shall have a one time right to cure any breach of clause (i) or (iii) of this Agreement within ten days following written notice of breach from the Company.

(b) Termination for Good Reason. The Employee shall be deemed

terminated for Good Reason for purposes of this Agreement in the event (i) the Employee is asked to relocate to a business location more than 20 miles from the Company's facility in Waterbury, Connecticut and more than 50 miles from the Employee's existing home, or (ii) the Employee's employment by the Company is terminated by the Company other than for Cause (and such termination does not result from the Employee's voluntary resignation or from death or disability).

6. Withholding. Distributions to the Employee pursuant to this Agreement

shall be subject to all applicable federal and state tax and withholding requirements.

7. Employment. The Employee's employment with the Company is strictly

"at will" and no provision of this Agreement shall be construed as conferring on the Employee the right to continue as an employee of the Company.

8. Governing Law. This Agreement shall be governed by the laws of the

State of California.

9. Entire Agreement. This Agreement, together with the Employment Letter

and the Acquisition Bonus Disbursement Agreement, constitutes the entire agreement between the parties on this subject matter and supersedes any prior agreements, arrangements or understandings that may have existed prior to the date of this Agreement between the Employee and GDC. This Agreement may be amended only upon execution of a written agreement between the Employee and the Company.

10. Counterpart Signatures. This Agreement may be executed in

counterpart, and all counterparts together shall constitute a single agreement.

11. Arbitration. Any dispute between the parties arising hereunder shall

be resolved by arbitration in accordance with the terms of the Employment Letter between the Company and the Employee.

This Agreement has been executed by the parties hereto as of the date set forth above.

"COMPANY"

PC-Tel, Inc.,
a Delaware corporation

By: _____
Title: _____

"EMPLOYEE"

(signature)

(print name)

DIRECT SALES AGENT AGREEMENT

This Agreement is made and entered into this 4th day of December 1998 by and between Kawasaki LSI U.S.A., Inc., a California corporation having its principal place of business at 2570 North First Street, Suite 301, San Jose, CA 95131 ("KLSI") and PC-TEL Global Technologies Ltd. with its office at (P.O. Box 258) First Home Tower, British American Centre, George Town, Grand Cayman, Cayman Island, British West Indies ("Agent").

In consideration of the mutual undertakings and agreements contained herein, the parties hereto agree as follows:

1. APPOINTMENT AND ACCEPTANCE

- - - - -

1.1 Subject to the terms and conditions herein set forth, KLSI hereby appoints Agent as its independent non-exclusive sales agent to solicit orders for and to promote the sales of those products listed in Exhibit A ("Products") in the geographic territory specified in Exhibit B ("Territory").

1.2 Agent hereby accepts such appointments and agrees to diligently solicit orders for and promote the sales of the Products. Agent agrees to act as an independent entity and as such agrees to conduct all of its business in its own name as an independent contractor.

2. SOLICITATION AND ACCEPTANCE OF ORDERS

- - - - -

2.1 KLSI may, in its sole discretion, accept or reject any order solicited by Agent or otherwise procured. No orders shall be considered binding or booked unless and until accepted in writing by KLSI. Agent has no right, power or authority, expressed or implied, to accept any order as binding upon KLSI and Agent shall so inform to all its customers.

2.2 All sales shall be at prices and upon such terms and conditions as are established by Agent and negotiated with customers by Agent. Agent shall not accept orders in its own name.

2.3 All orders in connection with the Products shall be placed with KLSI through Agent. Shipment of the Products from KLSI shall be made to Agent, and Agent shall ship the Products to the customers at its own expense on behalf of KLSI. All invoices in connection with the Products shall be rendered by Agent to customers on behalf of KLSI. It is agreed that Agent shall assume the responsibility to make any collection of any unpaid invoices issued to the customers on behalf of KLSI.

3. COMPENSATION
- -----

3.1 The sole compensation to which Agent shall be entitled for any service rendered under this Agreement shall be service fees to be paid in accordance with the provisions of this section.

3.2 Service fees shall be earned for the orders accepted by KLSI hereunder upon the delivery to the customers by Agent. Such service fees shall be computed based on the following formula:

{Unit Invoice Price of the Products (as billed to the customers) - Unit Price to be mutually agreed to by and between KLSI and Agent} X Quantity

3.3 Agent shall pay the unit price mutually agreed to by and between KLSI and Agent as mentioned in the above formula as soon as Agent collects payments from the customers, provided, however, that payment terms from Agent to KLSI shall not exceed sixty (60) calendar days after delivery of the Products to Agent, but no event prior to payment to Agent.

4. RESPONSIBILITY OF AGENT
- -----

Throughout the term of this Agreement and any extension thereof, Agent shall:

4.1 With the best of its skill, knowledge and attention, exert its best efforts and devote such time as is necessary to promote the sales of the Products in the Territory by all means at its disposal, including personal visits and demonstrations;

4.2 Provide and maintain at its own expense a proper and sufficient sales office and sales organization within the Territory. Agent shall not appoint subagents to promote and maintain sales of the Products in the Territory without the prior written consent of KLSI in each instance;

4.3 Obtain any information legally obtained concerning activities of competitors in terms of the Products in the Territory, including such competitors' literature and price information;

4.4 Maintain a current mailing list of prospective customers in the Territory;

4.5 Implement and carry through promotional and merchandising campaigns including, in particular, mailing at its own expense promotional literature to prospective customers;

4.6 Display, at its own expense, Products at appropriate trade shows in the Territory;

4.7 Avoid all circumstances and actions which would place Agent in a position of divided loyalty or conflict of interest with respect to the obligations undertaken under this Agreement for promoting the sale and use of the Products manufactured or offered for sale by KLSI for which Agent is authorized to solicit orders pursuant to the terms of this Agreement;

4.8 Quote prices, terms and conditions on the Products and make representations with respect to the Products and their capability and quality;

4.9 Identify prospective customers and appropriate design-in opportunities for the Products;

4.10 Qualify prospects, their ability to pay for the Products, and identify the business and technical requirements that may lead to booking an order;

4.11 Transmit any purchase orders or change orders regarding the Products to KLSI;

4.12 Provide KLSI with information regarding such as periodical forecasts of anticipated orders from customers; and

4.13 Provide customers with technical services before and after sales.

4.14 Bear sole responsibility for any warranty claims from Agent's customers regardless of billing to Agent's customers under KLSI invoices, provided, however, that this provision shall not relieve KLSI of its warranty obligation directly to Agent.

5. OBLIGATION OF KLSI - - - - -

Throughout the term of this Agreement and any extension thereof, KLSI shall:

5.1 Provide Agent with commercial information for production capacity and turn around time;

5.2 Manufacture the Products to specification and ship the Products to Agent;

5.3 Provide Agent with technical support as reasonably requested;

5.4 Promptly notify Agent of all shipments, invoices, and changes in delivery schedule.

6. TERM AND TERMINATION

6.1 This Agreement shall commence as of the date first set forth hereinabove and shall remain in effect for two(2) years, unless terminated earlier in accordance with this Agreement. Thereafter this Agreement will be automatically renewed each subsequent year for additional one (1) year, unless written notice of termination is sent by either party to the other at least sixty (60) days prior to the end of the initial term or any renewal term hereof.

6.2 Either party hereto may terminate this Agreement with or without cause at any time with not less than sixty (60) days prior written notice to the other party. The effective date of termination shall be the date specified in said notice, provided, that it is not less than sixty (60) days from the date of mailing, as aforesaid.

6.3 This Agreement shall terminate by its own force without notice in the event that either party becomes insolvent, or a petition of bankruptcy is filed designating either party as a bankrupt, or either party is dissolved or adjudged bankrupt, or becomes involved in any reorganization or arrangement or insolvency proceeding in accordance with any law for the relief of debtors, or any receiver is appointed for either party, or either party makes an assignment for the benefit of creditors.

6.4 If either party shall fail to perform properly the terms and conditions of this Agreement and the defaulting party has failed to cure the breach or default within thirty (30) days after written notice, the aggrieved party may terminate this Agreement immediately upon written notice given at any time after the end of said thirty (30) day period. However, if the nature of the breach or default is such that it cannot be remedied, this Agreement may be terminated immediately upon written notice to the defaulting party.

6.5 The parties recognize that termination of this Agreement in accordance with its terms or its failure to be renewed or extended may result in loss or damage to either party, but hereby expressly agree that neither party shall be liable to the other party by reason of any loss or damage resulting from such termination or expiration (including, without limitation, any loss of prospective profits or any damage occasioned by loss of goodwill) or by reason of any expenditures, investments, leases or

commitments made in anticipation of the continuance of this Agreement.

7. NON-COMPETITION

- - - - -

Agent covenants and agrees that during the term of this Agreement, Agent shall not represent any products or services, directly or indirectly competitive with the Products in the Territory.

8. CONFIDENTIALITY

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8.1 Each party acknowledges that by reason of its relationship to the other hereunder, it will access to certain information and materials that are confidential and of substantial value to the other, which value would be impaired if such information were disclosed to third parties. Each party agrees that it shall not use in any way for its account or the account of any third party, nor disclose to any third party any Confidential Information revealed to it by the other. Each party shall take every necessary precaution to protect the confidence of all Confidential Information. "Confidential Information" hereunder consists of (i) any information designated as confidential, (ii) any trade secrets related to the Products and (iii) any information relating to the other's product plans, product designs, product costs, finances, business plans, marketing plans, business opportunities, personnel, research, development and know-how. These restrictions shall survive the termination or expiration of this Agreement for any reasons five (5) years after the termination or expiration.

8.2 The foregoing restrictions shall not apply to information that (i) has become publicly known through no breach by the other party of the confidentiality obligations hereunder or (ii) has been rightfully received from a third party authorized to make such disclosure without restriction.

8.3 Any breach of the restrictions contained in this section 8 is a breach of this Agreement which will cause irreparable harm to the other party entitling the other party to injunctive relief in addition to all legal remedies.

9. LIMITATION OF LIABILITY

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LIABILITIES OF BOTH PARTIES ARISING OUT OF THIS AGREEMENT OR ITS TERMINATION OR EXPIRATION SHALL BE LIMITED TO THE AGGREGATE SERVICE FEES PAID OR PAYABLE HEREUNDER. IN NO EVENT EITHER KLSI OR AGENT SHALL BE LIABLE TO THE OTHER PARTY OR ANY THIRD PARTY FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, OR INDIRECT DAMAGES, HOWEVER CAUSED, OR ON ANY THEORY OF LIABILITY ARISING OUT OF THIS AGREEMENT OR ITS

TERMINATION OR EXPIRATION. THIS LIMITATION SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

10. RELATIONSHIP

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Agent shall in all matters relating to this Agreement act as an independent contractor, in all matters, neither Agent nor its employees are, or shall act as, employees of KLSI-within the meaning or application of any federal or state unemployment insurance laws, old age benefit laws, social security laws, worker's compensation or industrial accident laws, or under any other laws or regulations which would impute any obligation or liability to KLSI by reason of any employment relationship. Agent will reimburse KLSI for any liabilities or obligations imposed or attempted to be imposed upon KLSI by any one or more such laws or regulations with respect to employees of Agent in performance of this Agreement. Agent shall have no authority to assume or create any obligation, express or implied, on behalf of KLSI or to represent KLSI as an agent, partner, employee or in any other capacity other than as herein set forth

11. INDEMNITY

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Either KLSI or Agent shall indemnify the other Party for any and all damages, costs or expenses the other Party may incur by reason of any misfeasance or nonfeasance (including, without limitation, intellectual property right infringement or defective product) on the part of either KLSI or Agent including, without limitation, the making of unauthorized representations and warranties to any third party.

12. EXPENSES

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Agent shall pay all costs of conducting its sales agent business hereunder, including commissions or other compensation to salesmen employed or appointed by Agent.

13. GENERAL PROVISIONS

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13.1 This Agreement shall be governed by and construed under the laws of the State of California without reference to the conflict of laws.

13.2 In case of any dispute or claim arising out of or in connection with this Agreement or the performance, breach or termination thereof, the Parties shall meet together in view of reaching an amicable settlement. If the Parties fail to reach an amicable settlement, then such dispute or claim shall

be finally settled by binding arbitration which shall take place in the County of Santa Clara under the rules of the American Arbitration Association. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

13.3 No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the party to be charged, and the waiver of any breach or default shall not constitute a waiver of any other right hereunder or any subsequent breach or default.

13.4 Any notice required or permitted by this Agreement shall be deemed given if sent by registered or certified mail, postage prepaid, addressed to the other party at the address shown at the beginning of this Agreement or at other address for which such party gives notice hereunder. Delivery shall be deemed effective three (3) days after deposit with postal authorities.

13.5 Non-performance of either party shall be excused to the extent that performance is rendered impossible by strike, fire, flood, governmental acts, orders or restrictions, or any other reason where failure to perform is beyond the control and not caused by the negligence of the non-performing party.

13.6 Any assignment permitted hereunder shall be subject to the written consent of the assignee to all the terms and conditions of this Agreement. Neither party shall assign, transfer or otherwise dispose of this Agreement in part or in whole or any right or obligation hereunder to any individual, firm or corporation without the prior written consent of the other party; except that, in all events, either party may, after giving prior written notice, assign this Agreement to any successor in interest to its assets and business related to this Agreement other than a successor in interest which is a direct competitor of the non-assigning party.

13.7 This Agreement may be executed in two or more counterparts, each of which shall be deemed an original.

13.8 In the event that it is determined by a court of competent jurisdiction as part of a final non-appealable ruling, government action or binding arbitration, that any provision of this Agreement (or part thereof is invalid, illegal, or otherwise unenforceable, such provision shall be enforced as nearly as possible in accordance with the stated intention of the parties, while the remainder of this Agreement shall remain in full force and effect and bind parties according to its terms. To the extent of

any provision (or part thereof) cannot be enforced in accordance with the stated intentions of the parties, such provisions (or part thereof) shall be deemed not to be part of this Agreement.

13.9 This Agreement contains the entire understanding of the parties and supersedes any other oral or written agreements concerning the subject matter herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

Kawasaki LSI U.S.A., Inc. PC-TEL Global Technologies Ltd.

/s/ Masanori Kodama /s/ Peter Chen

Masanori Kodama Peter Chen
President President & CEO

PC-TEL, Inc. hereby guarantees the performance of PC-TEL Global Technologies Ltd.'s obligation hereunder, and If PC-TEL Global Technologies Ltd. fails to make any payments hereunder, PC-TEL, Inc. agrees to make payments on behalf of PC-TEL Global Technologies Ltd.

PC-TEL, Inc.

/s/ Peter Chen

Peter Chen
President & CEO

EXHIBIT A

Products
ASICS

EXHIBIT B

Territory
All Over the World

PCTel, Inc/Silicon Labs

Volume Purchase Agreement

1. ACCEPTANCE: EXCEPT AS SET FORTH ON THE ATTACHED ADDENDUM WHICH SHALL TAKE PRECEDENCE IN THE EVENT OF ANY CONFLICT, THE TERMS OF SALE CONTAINED HEREIN STATE THE EXCLUSIVE TERMS APPLICABLE TO SALES BY SILICON LABORATORIES INC. (THE "SELLER") TO PC-TEL Global, INC. (THE "BUYER") HEREUNDER, NOTWITHSTANDING ANY DIFFERENT OR ADDITIONAL TERMS IN BUYER'S PURCHASE ORDER, TO WHICH SELLER HEREBY OBJECTS. SELLER'S FAILURE TO OBJECT TO PROVISIONS CONTAINED IN ANY COMMUNICATION FROM BUYER SHALL NOT BE DEEMED A WAIVER OF THE CONDITIONS OF THIS ACCEPTANCE. ANY CHANGES IN THE TERMS CONTAINED HEREIN MUST SPECIFICALLY BE AGREED TO IN WRITING BY AN OFFICER OF THE SELLER BEFORE BECOMING BINDING ON EITHER THE SELLER OR THE BUYER. All orders or contracts must be approved and accepted by the Seller at its home office. These terms shall be applicable whether or not they are attached to or enclosed with the products to be sold or sold hereunder. No Seller prices shall be subject to audit.

2. DURATION:

This Agreement shall become effective on June 1st, 1998 ("Effective Date") and continue in effect for a term of two (2) years.

3. PAYMENT:

(a) Unless otherwise agreed by Seller in writing, all invoices are due and payable thirty (30) days from date of invoice. No discounts are authorized. Shipments, deliveries, and performance of work shall at all times be subject to the approval of the Seller's credit department and the Seller may at any time decline to make any shipments or deliveries or perform any work except upon receipt of payment or upon terms and conditions or security satisfactory to such department.

(b) If, in the sole judgement of the Seller, the financial condition or payment history of the Buyer at any time does not justify continuation of production or shipment on the terms of payment originally specified, the Seller may require full or partial payment in advance and, in the event of the bankruptcy or insolvency of the Buyer under the bankruptcy or insolvency laws, the Seller shall be entitled to cancel any order then outstanding and shall receive reimbursements for its cancellation charges.

(c) Each shipment shall be considered a separate and independent transaction, and payment therefor shall be made accordingly. If shipments are delayed by the Buyer, payments shall become due on the date when the Seller is prepared to make shipment. If the work covered by the purchase order is delayed by the Buyer, payments shall be made based on the purchase price and the percentage of completion. Products held for the Buyer shall be at the risk and expense of the Buyer.

4. TAXES: Unless otherwise provided herein, the amount of any present or future sales, use, revenue, excise or other taxes, fees, or other charges of any nature, imposed by any public authority (national, state, local or other) applicable to the products covered by any order, or the manufacture or sales thereof shall be added to the purchase price and shall be paid by the Buyer, or in lieu thereof, prior to shipment the Buyer shall provide the Seller with a tax exemption certificate acceptable to the taxing authority.

5. PRICES AND RELEASES:

(a) All prices are quoted in U.S. dollars.

(b) SI Labs agrees to provide pricing for all similar products to PCTel on a most favored customer basis to PCTel within market segments limited to soft modem chipset or board level suppliers and controllerless modem chipset or board level suppliers PCTel shall always have a price lower than any other customer for similar products. In the event that a price is quoted by SILABS or products are shipped by SILABS to other customers for any similar products which is equal to or lower than that price offered to PCTel, a retroactive price protection shall be granted to PCTel for all products shipped by SILABS to PCTel ninety (90) days prior to the infringing quotation or shipment. In addition any backlog PCTel orders shall be reset to the new price. The foregoing shall be the exclusive remedy given by SILabs to PCTel.

(c) Prices and associated volumes shall be described in the adjunct "addendum A" to this agreement.

6. PRICE ADJUSTMENTS: Seller's unit prices are based on certain material costs. These materials include, but are not limited to, gold, packages and silicon. Adjustments shall be as follows:

(a) Gold. If Seller has a Gold Price Adjustment List, the price at the time of shipment shall be adjusted for increases in the cost of gold in accordance with that list. This adjustment will be shown as a separate line item on each invoice.

(b) Other Materials. In the event of significant increases in the price of other materials, Seller reserves the right to renegotiate the unit prices.

7. SPECIAL PRODUCTS. The following provisions are to be considered a part of all Special Product quotations and orders. "Special Products" are those calling for products not contained in Seller's current catalog or price list, or those requiring modifications to catalog products (including semi-custom, custom, or application specific products), or those requiring sample, environmental, mechanical or life testing, 100% reliability screening, quality conformance qualification, or any combination thereof. These provisions supersede any other terms or conditions which are inconsistent herewith.

(a) Delivery dates are best estimates only and are subject to (1) Seller's receipt of order and negotiable specifications containing where applicable, all quoted waivers or exceptions; (2) successful first-time passage of products submitted to electrical performance test, to environmental or life test processing required by applicable specifications.

(b) Seller assumes no responsibility for refund or replacement of products shipped at Buyer's request prior to successful completion of acceptance or qualification tests performed by Seller, whether such tests are at Buyer's request or otherwise.

(c) Buyer may not make changes in the drawings, designs or specifications for the items to be sold hereunder without Seller's prior consent.

(d) Unless otherwise agreed in a writing signed by both Buyer and Seller, Seller shall retain title to and possession of all tooling of any kind (including but not limited to masks and pattern generator tapes) used in production of products furnished hereunder.

(e) All proprietary designs, concepts, drawings, data, processes, pattern generator tapes, masks and any other information which shall be disclosed by Seller in making a quotation or in the performance of a contract to sell the goods covered hereby, shall not be disclosed to third parties by Buyer. If Seller and Buyer have executed a "Non-Disclosure Agreement," all applicable provisions shall hereby be incorporated by reference.

(f) As between Seller and Buyer, Seller shall own all patents, copyrights and mask work rights in or relating to each product developed by Seller whether or not such product is developed to specifications furnished by Buyer.

8. MINIMUM ORDER: Unless otherwise agreed by Seller in writing, Seller's minimum order amount shall be one hundred dollars (\$100.00) for individual production orders.

9. TITLE: Unless otherwise agreed in writing by Seller, delivery of the products hereunder shall be made F.O.B. Texas, Seller's plant, and title and liability for loss or damage thereto shall pass to Buyer upon Seller's tender of delivery of the goods to a carrier for shipment to Buyer, and any loss or damage thereafter shall not relieve Buyer from obligation hereunder. Transportation expenses and insurance shall be paid by the Buyer.

10. DELIVERY: Shipping dates are approximate and are based upon prompt receipt from Buyer of all necessary information. In no event will Seller be liable for any re-procurement costs, nor for delay or non-delivery, due to causes beyond its reasonable control including, but not limited to, acts of God, acts of civil or military authority, priorities, fires, strikes, lockouts, slow-downs, shortages, factory or poor conditions, yield problems, or inability to obtain necessary labor, materials, or manufacturing facilities. In the event of any such delay, the date of delivery shall, at the request of the Seller, be deferred for a period equal to the time lost by reason of the delay.

11. SUBSTITUTIONS AND MODIFICATIONS OF GOODS: Seller may modify the specifications of goods designed by Seller and substitute goods manufactured to such modified specifications for those specified herein provided such goods substantially conform to this contract, provided Seller receives Buyer's written approval.

12. SOFTWARE: All software provided by Seller shall be subject to the license agreement and/or terms and conditions accompanying the software. Without limitation, a license agreement and/or terms and conditions may be printed or may be provided electronically. ALL SOFTWARE IS PROVIDED "AS IS" WITH NO WARRANTY WHATSOEVER.

13. ACCESS TO TECHNOLOGY: in the event that SILABS becomes the subject of voluntary or involuntary petition in bankruptcy or any proceeding related to insolvency, or composition for the benefit of creditors, SILABS agrees to grant access to the Product Technology through means of a standard form of third party technology escrow which would release and license (at no charge) the Product technology. Furthermore, SILABS agrees to enter into and execute the before mentioned escrow agreement within (90) ninety days following the execution of this agreement. In the event SILABS emerges from any such bankruptcy or insolvency proceeding, the Product Technology will be returned to SILABS and SILABS will resume supply of Products to PC-TEL.

14. CAPACITY AND FORECAST FLEXIBILITY: Based upon a six month rolling forecast from PC-TEL, SILABS guarantees 50% upside quantities for the first two months of the 6 month rolling forecast and 100% upside quantities for months three through six. The six month rolling forecast will be provided by PC-Tel to SILABS on a monthly basis on or before the first Tuesday of each Month. The SILABS upside guarantee shall become effective 60 days after receiving the first six month rolling forecast from PC-TEL. PC-Tel will make best efforts to provide timely and accurate forecasts.

15. LIMITED WARRANTY:

(a) General. Seller warrants that its packaged products furnished hereunder will at the time of delivery be free from defects in material and workmanship and will conform on the basis of form, fit and function to Seller's applicable specifications or, if appropriate, to specifications accepted by Seller therefor. Seller's obligation or liability hereunder shall be limited to, at Seller's option, either refunding the purchase price of, repairing, or replacing, any products for which written notice of nonconformance hereunder is received by Seller within two years following the date of shipment, provided, such nonconforming products are, with Seller's prior written authorization, returned to Seller, FOB Seller's plant, within thirty (30) days after the two year period. This warranty shall not apply to unpackaged semiconductor device die or wafers or to any products in other than their original condition, or to any products which Seller determines have, by Buyer or otherwise, been subjected to operating or environmental conditions in excess of the maximum value established therefor in the applicable specifications or otherwise have been the subject of mishandling, misuse, neglect, improper testing, repair, alteration or damage.

(b) Die. Seller warrants that its device die or wafers furnished hereunder will at the time of delivery be free of defects in material and workmanship and will conform to specifications established therefor, or if applicable, to specifications accepted by Seller. Seller's obligation hereunder shall be limited to, at Seller's option, replacing or refunding the purchase price for any products for which written notice of nonconformance hereunder is received by Seller within sixty (60) days following the date of shipment, provided such nonconforming products are, with Seller's prior written authorization, returned to Seller, F.O.B. Seller's plant, within thirty (30) days after the sixty (60) day period. This warranty shall not apply to any die or wafers which Seller determines have, by Buyer or otherwise, been subjected to operating or environmental conditions in excess of the maximum value established therefor in the applicable specifications or otherwise have been the subject of mishandling, misuse, neglect, improper testing, repair, alteration or damage.

(c) Technical Assistance. Seller's warranty as herein above set forth shall not be enlarged, diminished or affected by, and no obligation or liability shall arise or grow out of, Seller's rendering of technical advice, facilities or service in connection with Buyer's order of the goods furnished hereunder.

(d) Moisture/Static Sensitive. Seller ships all products in vacuum sealed antistatic packages. Seller's warranty as hereinabove set forth shall not cover warranty repair, replacement, or refund on product or devices damaged by static due to Buyer's failure to properly ground.

(e) Software. Software delivered hereunder is furnished "AS IS". SELLER MAKES NO WARRANTIES, WHETHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, WITH RESPECT TO SUCH SOFTWARE AND DOCUMENTATION DESCRIBING SUCH SOFTWARE, ITS QUALITY, ITS PERFORMANCE, ITS MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE. The entire risk as to the quality and performance of software and documentation describing such software is with Buyer.

(f) Disclaimer. THE ABOVE WARRANTIES EXTEND TO BUYER ONLY AND NOT TO BUYER'S CUSTOMERS OR USERS OF BUYER'S PRODUCTS AND ARE IN LIEU OF ALL OTHER WARRANTIES WHETHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. IN NO EVENT SHALL SELLER OR BUYER BE LIABLE FOR SPECIAL OR CONSEQUENTIAL DAMAGES REGARDLESS OF WHETHER IT HAS BEEN NOTIFIED IN ADVANCE OF THE POSSIBILITY THEREOF

16. REMEDIES: If Seller breaches its warranties as contained in paragraph 13 herein, Seller's sole and exclusive liability shall be (at Seller's option) to refund the purchase price of, repair or replace any such goods which are returned by Buyer during the applicable warranty period set forth above, provided that (a) Seller is promptly notified in writing upon discovery by Buyer that such goods failed to conform to this contract with detailed explanation of any alleged deficiencies, (b) such goods are returned to Seller, F.O.B. Seller's plant from which goods were shipped and (c) Seller's examination of such goods shall disclose that such alleged deficiencies actually exist and were not caused by accident, misuse, neglect, alteration, improper installation, unauthorized repair, or improper testing. If such goods fail to perform as warranted, Seller shall reimburse Buyer for the transportation charges paid by Buyer for such goods. If Seller elects to repair or replace such goods, Seller shall have a reasonable time to make such repairs or replace such goods.

17. LIMITATION OF LIABILITY: EXCEPT WITH RESPECT TO THIRD PARTY CLAIMS ARISING OUT OF THE OPERATION OF SECTION 22 OR A BREACH OF SECTION 23, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, COLLATERAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF THIS CONTRACT, INCLUDING, WITHOUT LIMITATION, PROVISIONS REGARDING WARRANTIES, GUARANTEES, INDEMNITIES, AND PATENT INFRINGEMENT, SUCH DAMAGES TO INCLUDE BUT NOT BE LIMITED TO, COSTS OF REMOVAL AND REINSTALLATION OF ITEMS, LOSS OF GOODWILL, LOSS OF PROFITS, OR LOSS OF USE, REGARDLESS OF WHETHER SELLER HAS BEEN NOTIFIED IN ADVANCE OF THE POSSIBILITY THEREOF EXCEPT WITH RESPECT TO THIRD PARTY CLAIMS ARISING OUT OF THE OPERATION OF SECTION 22 OR A BREACH OF SECTION 23 OR IN THE CASE OF GROSS NEGLIGENCE OR INTENTIONAL MISCONDUCT. THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

18. INSPECTION: Unless otherwise specified and agreed upon, the material to be furnished under this contract shall be subject to the Seller's standard inspection at the place of manufacture. If it has been agreed upon and specified in this order that Buyer is to inspect or provide for inspection at place of manufacture such inspection shall be so conducted as to not interfere unreasonably with Seller's instructions and consequent approval or rejection by the Buyer shall be made before shipment of the material. Notwithstanding the foregoing, if, upon receipt of such material by Buyer, the same shall appear not to conform to this contract, the Buyer shall immediately notify the Seller of such conditions and afford the Seller a reasonable opportunity to inspect the material. No material shall be returned without Seller's consent. Seller's Return Material Authorization Control Number must accompany such returned material.

19. ACCEPTANCE: Within twenty (20) days after shipment by Seller, Buyer may, by prompt written notice to Seller, reject any product furnished hereunder which, as delivered by Seller, has a defect in material or workmanship or (i) with respect to packaged products, does not conform to Seller's applicable specifications or, if appropriate, to specifications accepted by Seller therefor, or (ii) with respect to die or wafers, does not conform to specifications established therefor or, if applicable to specifications accepted by Seller. Buyer's rights, and Seller's obligation or liability, with respect to rejected products shall be limited to, at Seller's option, either refunding the purchase price of, repairing, or replacing any products for which written notice of nonconformance hereunder is received by Seller as set forth herein within thirty (30) days after shipment by Seller. Any product which is not so rejected by Buyer shall be deemed irrevocably accepted. Notwithstanding the foregoing, any product which has been the subject of mishandling, misuse, neglect, improper testing, repair, alteration, extreme environmental conditions, or damage shall be deemed accepted. Product returns shall be in accordance with the procedures specified in paragraph 16.

20. RESCHEDULING: Buyer may reschedule orders for standard products under this contract on written notice to Seller at least thirty (30) days prior to Seller's scheduled delivery date. Buyer may reschedule orders for application specific versions of standard products, semi-custom products, or custom products on written notice to Seller at least thirty (30) days prior to Seller's scheduled delivery date. All quantities must be rescheduled for delivery within twelve (12) months of Seller's original scheduled delivery dates; otherwise this contract may be cancelled by Seller, and Buyer shall be liable for termination charges as provided herein.

21. TERMINATION AND CANCELLATION: Except to the extent noted below orders are not subject to cancellation or termination for convenience.

(a) Buyer may terminate this contract upon sixty (60) days advance written notice to Seller. Buyer may terminate orders, or portions of orders, upon written notice to Seller at least sixty (60) days prior to the scheduled delivery date. In each such event, Buyer shall be liable for termination charges which shall include a price adjustment based on the quantity of goods actually delivered, and all costs, direct or indirect, incurred and committed for this contract together with a reasonable allowance for prorated expenses and anticipated profits.

(b) Unless otherwise specified on the face hereof, all quantities must be released no more than twelve (12) months and shipments scheduled no more than twelve (12) months from the date of Seller's receipt of Buyer's initial purchase order, otherwise this contract may be terminated by Seller and Buyer shall be liable for termination charges as provided herein.

(c) If either party defaults in performance of any material obligation hereunder and if any such default is not corrected within (60) sixty days after the defaulting party receives written notice thereof from the non-defaulting party, then the non defaulting party, at its option, may in addition to any other remedies it may have, terminate this agreement.

(d) Either party may terminate this agreement effective upon written notice to the other party in the event that the other party becomes the subject of voluntary or involuntary petition in bankruptcy or any proceeding related to insolvency, or composition for the benefit of creditors, if that petition or proceeding is not dismissed within (60) sixty days after filing.

22. INDEMNITY: Seller shall defend Buyer against any suit or proceeding brought against Buyer insofar as such suit or proceeding is based on a claim that any goods manufactured and supplied by Seller to Buyer constitute direct infringement of any copyright, mask work right, or duly issued United States patent and Seller shall pay all damages and costs finally awarded therein against Buyer, provided that Seller is promptly informed and furnished a copy of each communication, notice or other action relating to the alleged infringement and is given complete authority, information and assistance (at Seller's expense) necessary to defend or settle said suit or proceeding; provided, that Seller shall not be obligated to defend or be liable for costs and damages if the infringement arises out of compliance with Buyer's specifications, or from a combination with, and addition to, or modification of the goods after delivery by Seller, or from use of the goods, or any part thereof, in the practice of a process, or from any settlement or compromise incurred or made by Buyer without Seller's prior written consent. Seller's obligations hereunder shall not apply to any infringement occurring after Buyer has received notice of such suit or proceeding alleging infringement unless Seller has given written permission for the continued use of goods after notice of such infringement. If any goods manufactured and supplied by Seller to Buyer shall be held to infringe any copyright, mask work right, or United States patent and Buyer shall be enjoined from using same, Seller at its option and its expense, will use good faith efforts to, (a) procure for Buyer the right to use such goods free of any liability for infringement, or (b) replace such goods with a non-infringing substitute otherwise complying substantially with all requirements of this contract, or (c) refund the purchase price and the transportation costs of such goods. If the infringement by Buyer is alleged prior to completion of delivery of the goods under this contract, Seller may decline to make further shipments without being in breach of this contract, and, provided Seller has not been enjoined from selling said goods to Buyer, Seller agrees to supply said goods to Buyer if Buyer furnishes to Seller the written agreement of Buyer that the indemnity obligations herein stated with respect to Seller shall reciprocally apply with respect to Buyer.

Seller's liability and obligations arising out of this section with respect to any units shall not exceed the amount received by Seller from Buyer for such units.

If any such suit or proceeding is brought against Seller based on a claim that the goods manufactured by Seller in compliance with Buyer's specifications and supplied to Buyer directly infringe any copyright, mask work right or United States patent, then the indemnity obligations herein stated with respect to Seller shall reciprocally apply with respect to Buyer. The sale by Seller of the items ordered hereunder does not grant to, convey, or confer upon Buyer or Buyer's customers, or upon anyone claiming under Buyer, a license, express or implied, under any copyrights, mask work rights, or patent rights of Seller covering or relating to any combinations, machines or processes in which said items might be or are used.

THE FOREGOING STATE THE SOLE AND EXCLUSIVE LIABILITY OF THE PARTIES HERETO FOR INFRINGEMENT AND IS IN LIEU OF ALL WARRANTIES, EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE IN REGARD THERETO.

23. **CONFIDENTIALITY:** Each party agrees that it will keep in confidence, and prevent the use (other than for the purposes of this contract) or disclosure to any person, all technical information and data (hereinafter referred to as "data") which is designated in writing, or by appropriate stamps, or legend by the disclosing party, to be of a proprietary or confidential nature, and is received from the other under this Agreement and which pertains to proprietary or confidential data regarding its technological techniques, inventions, or research and development, provided; however, that neither party shall be liable for the use of any data if the same: (A) was generally available to the public at the time of disclosure to the receiving party; or (B) becomes generally available to the public, except as the result of unauthorized disclosure by the receiving party; or (C) was known, without confidentiality restriction, to the receiving party and documented in writing prior to its receipt, and so informs the disclosing party of such facts at the time of disclosure; or (D) is disclosed inadvertently, despite the exercise of the same degree of care as each party takes to preserve and safeguard its own proprietary information; or (E) if the disclosing party agrees in writing that it can be disclosed by the receiving party to a third party; or (F) becomes known to the receiving party, without confidentiality restriction, from a source other than the disclosing party without breach of this Agreement by the receiving party; or (G) is independently developed by the receiving party without use of the disclosing party's data; or (H) is required by law to be released; or (I) is disclosed after three (3) years from the date of this contract.

SiLabs will honor all active Non Disclosure Agreements in place between SiLabs and PC-TEL, and use extreme care in handling all information related to products not yet released to the marketplace. Furthermore, SiLabs will work closely with PC-TEL on the appropriate language and marketing messages related to the PC-TEL - SiLabs relationship. SiLabs agrees to only communicate information to third parties (related to the PC-TEL relationship, technology, and products) that has been approved by PC-TEL.

24. **NON-WAIVER OF DEFAULT:** In the event of any default by Buyer, Seller may decline to make further shipments without being in breach hereof. If Seller elects to continue to make shipments, Seller's action shall not constitute a waiver of any default by Buyer or in any way affect Seller's legal remedies for any default hereunder.

25. **ASSIGNMENT:** This contract shall be binding upon and inure to the benefit of the parties and the successors and assigns of the entire business and goodwill of either Seller or Buyer, or of that part of the business of either used in the performance of this contract, but shall not be otherwise assignable.

26. **LEGAL COMPLIANCE:** Buyer at all times shall comply with all applicable federal, state, and local laws and regulations.

THE PRODUCTS COVERED BY THIS CONTRACT MAY FALL WITHIN THE GROUP OF "STRATEGIC" ELECTRONIC PRODUCTS THAT ARE WHOLLY OR PARTLY OF U.S. ORIGIN OR TECHNOLOGY, THE EXPORT OF WHICH IS SUBJECT TO EXPORT LICENSE CONTROL BY THE U.S. GOVERNMENT. BUYER, BY ACCEPTING THESE PRODUCTS, CERTIFIES THAT HE WILL NOT EXPORT OR RE-EXPORT THE PRODUCTS FURNISHED HEREUNDER UNLESS HE COMPLIES FULLY WITH ALL LAWS AND REGULATIONS OF THE UNITED STATES RELATING TO SUCH EXPORT OR RE-EXPORT, INCLUDING BUT NOT LIMITED TO THE EXPORT ADMINISTRATION ACT OF 1979, AS AMENDED AND THE EXPORT ADMINISTRATION REGULATIONS OF THE U.S. DEPARTMENT OF COMMERCE.

27. **APPLICABLE LAW:** The validity, performance, and construction of this contract shall be governed by the internal laws of the State of California, without reference to conflict of laws principles.

28. **U.S. GOVERNMENT CONTRACTS:** In the event the goods furnished hereunder are used in the performance of a U.S. Government contract or subcontract, the Government procurement regulation clauses required to be passed on to subcontractors are excluded from this agreement unless separately agreed to in writing by Seller. In no event shall Government clauses regarding "Rights in Data" or "Subcontractor Cost and Pricing Data" be incorporated herein.

29. **ATTORNEYS FEES:** In the event that any action is brought to enforce any provision of this contract, the prevailing party shall be entitled to recover from the other party, in addition to any judgment, its attorneys fees and expenses.

30. **LIFE SUPPORT AND NUCLEAR POLICY:** Seller's products are not designed, intended, authorized, or warranted to be suitable for use in life support or nuclear applications, devices or systems. Examples of nuclear applications are applications in nuclear reactors or any device designed or used in connection with the handling, processing, packaging, preparation, utilization, fabricating, alloying, storing, or disposal of fissionable material or waste products thereof. Inclusion by Buyer of Seller's products in such applications is fully at Buyer's risk, and Buyer shall indemnify and hold Seller and its suppliers harmless from all costs, loss, liability, and expense (including without limitation

court costs and attorneys (fees) arising out of such inclusion by Buyer or its direct or indirect customers.

31. MODIFICATION: THIS CONTRACT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES RELATING TO THE SALE OF THE GOODS DESCRIBED ON THE FACE HEREOF AND SUPERSEDES ALL PRIOR OR CONTEMPORANEOUS COMMUNICATIONS, REPRESENTATIONS, OR AGREEMENTS, EITHER ORAL OR WRITTEN, WITH RESPECT TO THE SUBJECT MATTER HEREOF, AND ANY REPRESENTATIONS OR STATEMENTS OF ANY KIND MADE BY ANY REPRESENTATIVE OF SELLER, WHICH ARE NOT STATED HEREIN, SHALL NOT BE BINDING ON SELLER. NO MODIFICATION OF ANY PROVISION UPON THE FACE OR REVERSE OF THIS CONTRACT SHALL BE BINDING UPON SELLER UNLESS MADE IN WRITING AND SIGNED BY A DULY AUTHORIZED REPRESENTATIVE OF SELLER LOCATED IN AUSTIN, TEXAS.

| | |
|-----------------------|----------------------|
| PC-TEL, INC. | Silicon Labs, Inc. |
| By: /s/ Steve Manuel | By: /s/ Gary R. Gay |
| ----- | ----- |
| Title: V.P. Marketing | Title: V.P. of Sales |
| ----- | ----- |
| Date: 10/28/98 | Date: 10/16/98 |
| ----- | ----- |

ADDENDUM "A"

Pricing and Volumes

1. Prices: SiLabs shall honor a price point \$2.33 per unit for Products shipped to PCT in calendar year 1998, commencing on August 27, 1998. No later than sixty (60) days prior to the conclusion of calendar year 1998, and each annual period thereafter, the parties will negotiate the unit prices applicable to succeeding calendar year. In the event that the parties are unable to agree on such unit price for the upcoming annual period, the prices shall be set at no greater than the existing unit price.

2. Minimum Volume Commitment. Pctel shall purchase a minimum annual quantity of 600,000 units of SiLab's DAA chipset in calendar year 1998. This volume may consist of the current SI3033/Pctel 301 or future versions of chips containing Silicon Labs integrated Codec/DAA technology. No later than sixty (60) days prior to the conclusion of calendar year 1998, and each annual period thereafter, the parties will negotiate the annual minimum quantity, if any, applicable to succeeding calendar year.

SCHEDULE C

ESCROW AGENT FEE SCHEDULE

For each individual Employee, a \$300 annual fee shall be charged. For each transaction performed on behalf of the Employee, a \$20 fee shall be charged.

List of Subsidiaries of the Registrant

1. PC-TEL Global Technologies Ltd.
2. PC-TEL Japan, K.K.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports and to all references to our firm included in or made a part of this registration statement.

San Jose, California
August 4, 1999

Arthur Andersen LLP

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated December 15, 1998, relating to the financial statements and financial statement schedules of the Technology Alliance Group Division of General DataComm, Inc., which appear in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Stamford, CT
August 4, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM S-1 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| YEAR | 6-MOS | | |
|-------------|-------------|--------|---------|
| DEC-31-1998 | JUN-30-1999 | | |
| JAN-01-1998 | JAN-01-1999 | | |
| DEC-31-1998 | JUN-30-1999 | | |
| | 12,988 | | 17,252 |
| | 0 | | 6,282 |
| | 14,620 | | 8,898 |
| | (1,689) | | (3,382) |
| | 2,073 | | 3,590 |
| | 32,461 | | 37,770 |
| | 1,615 | | 2,305 |
| | (573) | | (830) |
| | 45,996 | | 50,483 |
| 16,148 | | 18,992 | |
| | 14,709 | | 13,630 |
| 0 | | 0 | |
| | 9 | | 9 |
| | 2 | | 2 |
| | 15,128 | | 17,850 |
| 45,996 | 50,483 | | |
| | 33,004 | | 33,046 |
| 33,004 | | 33,046 | |
| | 13,878 | | 16,997 |
| | 13,878 | | 16,997 |
| 18,898 | | 11,595 | |
| 0 | | 0 | |
| (479) | | 592 | |
| 707 | | 3,862 | |
| | 212 | | 1,158 |
| 495 | | 2,704 | |
| 0 | | 0 | |
| 0 | | 0 | |
| | 0 | | 0 |
| | 495 | | 2,704 |
| | 0.21 | | 1.10 |
| | 0.04 | | 0.21 |