UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the year ended December 31, 2000

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

For the transition period from ________ to ________

Commission File Number 000-27115

PCTEL, Inc.
(Exact Name of Business Issuer as Specified in Its Charter)

Delaware	77-0364943
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1331 California Circle, Milpitas, CA	95035
(Address of Principal Executive Office)	(Zip Code)

(408) 965-2100
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 Par Value Per Share.

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

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

As of February 28, 2001, the aggregate market value of the Registrant's common stock held by nonaffiliates of the Registrant was $171,956,080 based on the last transaction price as reported on the Nasdaq National Market. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purposes.

As of February 28, 2001, the number of shares of the Registrant's common stock outstanding was 18,974,464.

Items 10, 11, 12 and 13 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on May 15, 2001.

PCTEL, Inc.

Form 10-K
For the Year Ended December 31, 2000

Part I

Item 1: Business

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, but are not limited to, the statements relating to the development of new products in new and existing markets in the second paragraph of the overview, the evolving development of mass market adoption of asymmetric digital subscriber line based data communications in the third paragraph under "Overview", the availability of products using LiteSpeed(TM) and the development of Solsis(TM), Accelsis and Solsis II under "Products", the development of additional digital subscriber line and wireless spread spectrum technologies and our intention to file patents covering such technologies under "Intellectual Property Licensing", the statements regarding the duration of our patents under "Licenses, Patents and Trademarks", the statements regarding unauthorized use of our technology under "Licenses, Patents and Trademarks", the statements regarding our competition under "Competition", the statements regarding the ESS and Smart Link litigation under Item 3 of "Legal Proceedings", the statements regarding future research and development expenses under "Research and Development", the statements regarding future selling and marketing expenses under "Sales and Marketing", the statements regarding future general and administrative expenses under "General and Administrative", the statements regarding future amortization of deferred compensation expenses under "Amortization of Deferred Compensation", the statements regarding future provision for income taxes under "Provision for Income Taxes", the statements regarding available cash resources available to meet capital requirements, the factors affecting capital requirements and the raising and availability of additional funds in the fourth paragraph under "Liquidity and Capital Resources", and the statements under "Factors Affecting Operating Results" among others. These forward-looking statements are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties are set forth below under "Factors Affecting Operating Results".

Overview

We are a leading developer and supplier of cost-effective, connectivity solutions, which enable high speed Internet access through analog, broadband and wireless networks. As a pioneer in developing host signal processing technology, a proprietary set of algorithms that enables cost-effective software-based digital signal processing solutions, our solution utilizes the computational and processing resources of a host central processing unit rather than requiring additional special-purpose hardware. Based on our own research and testing, this architecture can reduce space requirements by 50% and power requirements by 70% compared to conventional hardware-based solutions. The first implementation of our host signal processing technology was in a software modem, or soft modem, in 1995. For the fiscal year ended 2000, we shipped 24.9 million soft modems. Various original equipment manufacturers, including Compaq, Dell, emachines, Fujitsu, Legend, Micron and NEC, have integrated our soft modems into their products.

Our proprietary software architecture provides significant benefits over traditional hardware-based solutions. Our software architecture:

. Reduces the hardware, space and power requirements of conventional hardware-based connectivity devices, which reduces our customers' manufacturing costs while offering superior or comparable performance;

. Minimizes the risk of technological obsolescence and enables an array of communication solutions for PCs and alternative Internet access devices that are easily upgradeable;

. Allows us to quickly and cost-effectively develop new products to capitalize on rapidly growing market segments such as the developing broadband and wireless markets; and

. Is compatible with multiple operating systems, including but not limited to Windows 3.1, 95, 98, 2000, NT and CE, and BeOS, Linux, OS/2 and VXWorks.

We are also developing a distribution concept designed to accelerate the mass market adoption of digital subscriber line based communications. We believe that the current means of deploying these modems, which requires a technician to visit the customer's home, is a complicated, time consuming and expensive process which severely limits the potential mass market adoption of broadband technology. We believe that to limits the estimated annual volumes of three to five million subscripted installations as forecasted by industry analysts, the industry may need to change its distribution model. We believe that a logical solution for accelerating the mass market deployment of digital subscriber line technology is to evolve today's complicated and expensive provisioning model to resemble the current 56k/V.90 modem distribution model wherein the modem is bundled inside of personal computers or alternative Internet access devices. This allows the end-user and the telephone company to initiate the digital subscriber line communications services without requiring a technician to visit the home, accelerating adoption of broadband services, and significantly reducing upfront deployment costs.

Corporate Background

We were incorporated in California in 1994 and reincorporated in Delaware in 1998. Our principal executive offices are located at 1331 California Circle, Milpitas, California 95035. Our telephone number at that address is (408) 965-2100.

Products

Current Products

MicroModem. The MicroModem integrates our host signal processing technology with a micro form-factor data access arrangement. In contrast to the conventional hardware modem, our soft architecture replaces the memory chip, digital signal processing chip, universal asynchronous receiver and transmitter, and controller chip with customized software that draws upon the excess capacity of the host central processing unit. Our patented MicroModem further reduces power and size requirements by replacing approximately 90 discrete hardware components with two mini data access arrangement chips. This integration reduces the number of components in a conventional data access arrangement by approximately 40%. The MicroModem is certified as being compatible with the telecommunications standards of most industrialized countries, allowing original equipment manufacturers to accomplish seamless global interoperability.

The MicroModem currently comes with standard interfaces to computers such as PCI, ACR, Modem Riser and USB.

LiteSpeed(TM). In November 2000, we began to ship our G. Lite LiteSpeed(TM) family of customer premise equipment digital subscriber line products. Operating at 30 times the speed of a standard 56K analog modem, LiteSpeed(TM) is the first modem chipset to offer both 56K and digital subscriber line operability in a single chip and with simultaneous operations. Compatible with industry standards, this chipset is our first foray into the broadband market.

Solsis(TM). In the fourth quarter of 2000, we began shipping our Solsis(TM) product. Solsis(TM) is our first embedded solution for Internet access 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, game consoles and Internet access devices. Design wins in each of these areas have already been announced. By offering reductions in size, cost and power consumption, we believe that our embedded solution is also ideal for many of these space restricted or mobile appliances.

Future Products

Accelsis. We are developing the G.DMT standard version of asymmetric digital subscriber line customer premise equipment which will allow for full-rate data transmission. Full-rate solutions can accommodate eight megabits per second downstream and one megabit per second upstream. We expect this modem to be developed in 2002.

Solsis II. We are also developing the second generation of our Solsis(TM) embedded solution that utilizes lesser components. This will further reduce the cost and power consumption for these non-PC Internet appliances. We expect this modem to be developed in the second half of 2001.

Intellectual Property Licensing

We offer our intellectual property through licensing and product royalty arrangements. Our technology is licensed directly or indirectly by hundreds of companies in the communications industry, such as Cisco, Conexant, Texas Instruments, 3Com, Hitachi, Intel and NEC, who use International Telecommunications Union standard technology.

In addition, we are developing digital subscriber line and wireless spread spectrum intellectual property technologies, which may be patentable. Once developed, we intend to file patents covering such technologies.

Customers

We sell our products directly and indirectly to a number of distributors and customers. The following is a list of selected direct and indirect customers, all of which have either purchased our products during fiscal year 2000 or are currently incorporating our modem products into their product lines. The companies listed in the table, other than those identified as distributors, are representative of the various distribution channels in which we sell our products.

Distributors	Modem Board Manufacturers	Motherboard Manufacturers	PC OEM Companies	Embedded System Integrator
Golden Way	Amigo	Prewell International	Compaq	Ericsson
InnoMicro	Askey Computer		Dell*	LSI Logic
Lestina International	Aztech		emachines	NEC
Roxan USA	CIS		Fujitsu	Sagem
Silicon Application Corporation	E-Tech		Hewlett Packard	Silicon Laboratories
	GVC		Legend Computer	
	Serome		Micron	
	Uniwell		NEC	
			Sharp*	
			TwinHead*	

*Each of the companies designated with an asterisk is an indirect customer of ours.

For the year ended December 31, 2000, revenues derived from sales to customers Prewell International, Askey Computer and GVC Corporation accounted for approximately 32%, 15% and 13%, respectively, of product sales. For the year ended December 31, 1999, revenues derived from sales to customers Prewell International and Askey Computer accounted for 47% and 13%, 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 directly to original equipment manufacturers and systems integrators and indirectly through distributors. In many cases, modems are manufactured by third parties on behalf of the final brand name original equipment manufacturer. We focus on developing long-term customer relationships with our direct and indirect customers. In many cases, our indirect original equipment manufacturer customers specify our products be included on their modem boards or motherboards purchased from board manufacturers.

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. Our marketing organization also provides a wide range of programs, materials and events to support the sales organization.

As of December 31, 2000, we employed 75 individuals in sales, marketing and support and maintained regional sales support operations in Tokyo, Japan, Taipei, Taiwan, Seoul, Korea and Paris, France.

Backlog

Sales of our products are generally made pursuant to standard purchase orders, which are officially acknowledged by us according to our terms and conditions. Due to industry practice, which allows customers to cancel or reschedule orders with limited advance notice to us prior to shipment without significant penalties, we believe that our backlog, while useful for scheduling production, is not necessarily a reliable indicator of future revenues.

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 of December 31, 2000, we employed 76 employees in research and development, 61 of whom have advanced degrees, including eight who have earned PhDs.

For the year ended December 31, 2000, total research and development costs incurred were $14.1 million, compared to $10.3 million and $4.9 million for 1999 and 1998, respectively.

Manufacturing

We outsource the manufacturing of our application specific integrated circuit, coder/decoder and data access arrangement chips to independent foundries in order to avoid significant fixed overhead, staffing and capital requirements associated with semiconductor fabrication.

Our primary chipset suppliers are Kawasaki/LSI, Silicon Labs and Taiwan Semiconductor Manufacturing Corporation. The major operations of each of these manufacturers meet ISO-9001 international manufacturing standards. Our data access arrangement chips are currently purchased from Silicon Labs on a purchase order basis. We have a limited guaranteed supply of data access arrangement 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 45 patents, a number of which cover technology that is considered essential for International Telecommunications Union standard communication solutions. We also have 27 additional patent applications pending or filed relating to soft modem, digital subscriber line and wireless technology. Because of the fast pace of innovation and product development, our products are often obsolete before the patents related to them expire. As a result, we believe that the duration of the applicable patents is adequate relative to the expected lives of our products.

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.

We have received communications from third parties, including Lucent and Dr. Brent Townshend, claiming to own patent rights in technologies that are part of communications standards adopted by the International Telecommunications Union, such as V.90, V.34, V.42bis and V.32bis, and other common communications standards. These third parties claim that our products utilize these 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. To date, we have not obtained any licenses from Lucent or Dr. Townshend because we believe that both Lucent 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 International Telecommunications Union.

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. Unauthorized use of our technology may result in development of products that compete with our products, which could cause our market share and our revenues to be reduced."

Competition

The connectivity device market is intensely competitive. Our current competitors include Broadcom, Conexant, ESS Technology, Lucent Technologies, Motorola, SmartLink and Texas Instruments. We expect competition to increase in the future as current competitors enhance their product offerings, new suppliers enter the connectivity device market and new communication technologies are introduced and deployed.

We may in the future also face competition from other suppliers of products based 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 3Com, Aironet, Alcatel, Analog Devices, Aware, Breezecom, Centilllium Communications, Efficient Networks, Globespan, Intersil, ITeX, Metalink, Proxim, SymbolTechnologies and Virata.

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 in these areas.

Employees

As of December 31, 2000, we employed 198 people full-time, including 75 in sales and marketing, 76 in research and development, and 47 in general and administrative functions. Over 50% of our employees have advanced degrees, with eight having earned doctoral level degrees. None of our employees is represented by a labor union. We consider our employee relations to be good.

On February 8, 2001, we went through a reduction in workforce which amounted to 11% of the employee population.

Executive Officers

The following table sets forth information with respect to our executive officers as of December 31, 2000:

Name	Age	Position
Peter Chen (1)	46	Chief Executive Officer
William F. Roach (2)	56	President and Chief Operating Officer
Andrew D. Wahl (3)	52	Vice President, Finance, Chief Financial Officer
Mark Wilson	49	Vice President, Marketing
Derek S. Obata	42	Vice President, Sales
J. Terry Huang	47	Vice President, Engineering
Navin Rao	40	Vice President, Business Development
Thomas A. Capizzi	42	Vice President, Human Resources

(1) Resigned as Chief Executive Officer on February 15, 2001 and appointed as Honorary Chairman of the Board
(2) Appointed as Chief Executive Officer on February 15, 2001
(3) Appointed as Secretary on February 15, 2001

Mr. Peter Chen was one of our co-founders and has served as our Honorary Chairman of the Board since February 15, 2001. From our inception in March 1994 to February 15, 2001, Mr. Chen served as our Chief Executive Officer and Chairman of the Board. Mr. Chen is also the cousin of one of our directors, Dr. Mike Min-Chu Chen. Mr. Chen has over 15 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 our President and Chief Executive Officer since February 15, 2001. Prior to that, Mr. Roach was our President and Chief Operating Officer from August 1999 to February 2001. Mr. Roach has been a director since August 2000. From January 1997 until joining us, 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 our Vice President of Finance and Chief Financial Officer 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. Mark Wilson has been our Vice President of Marketing since July 2000. Mr. Wilson most recently served as director of product management for privately-held NARUS, Inc., a leading provider of Internet business infrastructure solutions before joining us. With more than twenty years of experience in the industry, Mr. Wilson's portfolio of industry experience includes upper-level management positions in firms such as Hewlett Packard, where he was charged with market development and product management for the Internet Business Unit of the VeriFone Division. While with Cirrus Logic, Inc., he served as Vice President of Customer Marketing. Mr. Wilson also held the position of Vice President of OEM Marketing at IBM Corporation's Storage Systems Division and was Vice President of Marketing at Quantum Corporation. Mr. Wilson holds an MBA from Boston University and an undergraduate degree in Electrical Engineering from the University of Massachusetts.

Mr. Derek S. Obata has been our Vice President of Sales since April 1998. From 1997 until joining us, 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. J. Terry Huang has been our Vice President of Engineering since April 2000. Formerly our Senior Director of Program Management, Mr. Huang joined us in 1997 as Director of Engineering. He has more than twenty years of R&D experience in microprocessor-based systems and software design for embedded, multi-processor systems. Prior to joining us, Mr. Huang managed the Electrical Engineering and Application Engineering departments at Photon Dynamics, and served as a Program Manager and Principal Engineer at Abbott Laboratories. He has also worked for Rockwell International and Tencor Instruments and holds multiple U.S. patents. Mr. Huang holds a Bachelor degree from Taiwan's National Cheng-Kung University and a Master of Science degree in Electrical Engineering from the University of Texas, Arlington.

Mr. Navin Rao has been our Vice President of Business Development since October 2000. Mr. Rao had previously served as Vice President in various areas for us from January 1996 to October 2000. From 1990 until joining us in 1996, Mr. Rao was Product Marketing Manager in the communications business unit at SGS-Thomson Microelectronics and was responsible for marketing and market development activities for the North America region. Mr. Rao served from 1988 to 1990 as Senior Field Applications Engineer in Teradyne Inc. on DSP based testers, and from 1985 to 1998 as Senior Product Planning and Applications Engineer at Advanced Micro Devices in its Communications Products Division. Mr. Rao holds a Bachelor of Science degree in Electronics and Communications from Osmania University, India, a Master of Science degree in Electrical Engineering from Utah State University and a Master in Business Administration from University of Texas.

Mr. Thomas A. Capizzi has been our Vice President of Human Resources and Chief Administrative Officer since January 2000. From July 1997 until joining us, Mr. Capizzi served as Vice President, Corporate Human Resources for McKessonHBOC, a pharmaceutical supply and information company. From August 1995 to July 1997, Mr. Capizzi served as Senior Director, Human Resources, Worldwide Sales and International for Quantum Corporation, a data storage company. Mr. Capizzi holds a Bachelor of Arts in Psychology from Cathedral College and St. John's University in New York.

Factors Affecting Operating Results

This annual report on Form 10-K contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking statements as a result of certain factors including those set forth below.

Risks Related to Our Business

The recent economic slowdown, particularly the rapid deterioration in PC demand, makes it difficult to forecast customer demand for our products, and will likely result in excessive operating costs and loss of product revenues.

In the fourth quarter of 2000, our customers, primarily our PC motherboard and distribution manufacturers, were impacted by significantly lower PC demand, which forced them to unexpectedly reschedule or cancel orders for our products late in the fourth quarter. As a result, our revenues and earnings were negatively affected. Because we expect PC demand to continue to be weak for the foreseeable term, we expect our revenues to continue to be negatively affected. In February 2001, we announced projected revenues and earnings for fiscal 2001 at levels approximately the same or less than those recorded for fiscal 2000. However, if PC demand does not recover during the latter half of 2001, or if we are unable to manage our operating expenses, we will not be able to meet these projections.

In addition, the current economic environment also makes it extremely difficult for us to forecast customer demand for our products. We must forecast and place purchase orders for specialized semiconductor chips 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. 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 cause our gross margin and net income to decrease.

Our sales are concentrated among a limited number of customers and the loss of one or more of these customers could cause our revenues to decrease.

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 sales revenues may decrease. For the year ended December 31, 2000, approximately 74% of our revenues were generated by five of our customers, with one customer representing 32% of revenues. 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 permits 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 at least the next 12 to 18 months and that a significant portion of our sales will continue to be made on the basis of purchase orders.

Continuing decreases in the average selling prices of our products could result in decreased revenues.

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. The average selling price of our products has decreased by approximately 69% from October 1995 to December 31, 2000. We expect this trend to continue.

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. Adoption of industry standards is driven by the market requirement to have interoperable modems. End-users need this interoperability to ensure modems from different manufacturers communicate with each other without problems. Historically, users have deferred purchasing modems until these industry standards are adopted. However, once these standards are accepted, it lowers the barriers to entry and price erosion results. Decreasing average selling prices in our products could result in decreased revenues 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 may hurt our net income.

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 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 result in a decrease in gross margins and net income.

We have significant sales and operations concentrated in Asia. Continued political and economic instability in Asia and difficulty in collecting accounts receivable may make it difficult for us to maintain or increase market demand for our products.

Our sales to customers located in Asia accounted for 91% of our total revenues for the year ended December 31, 2000. The predominance of our sales is 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 original equipment manufacturer customers specify that our products be included on the modem boards or motherboards, the main printed circuit board containing the central processing unit of a computer system, that they purchase from board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect original equipment manufacturer customers, both in the United States and internationally. 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:

- delays in collecting accounts receivable, which we have experienced from time to time,
- fluctuations in the value of Asian currencies relative to the U.S. dollar, which may make it more costly for us to do business in Asia and which may in turn make it difficult for us to maintain or increase our revenues,
- changes in tariffs, quotas, import restrictions and other trade barriers which may make our products more expensive compared to our competitors' products, and
- political and economic instability.

To successfully expand our sales in Asia and internationally, 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 market demand for our products in Asia and internationally, and our operating results could be hurt.

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

Our revenue depends on our ability to anticipate our customers' needs and develop products that address those needs. In particular, our success in 2001 will depend on our ability to introduce new products for the wireless and broadband markets. Introduction of new products and product enhancements will require coordination of our efforts with those of our suppliers to rapidly achieve volume production. If we fail to coordinate these efforts, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our revenues may be reduced and our business may be harmed. We cannot assure you that product introductions will meet the anticipated release schedules.

Our revenues may fluctuate each quarter due to both domestic and international seasonal trends.

We have experienced and continue to experience seasonality in sales of our connectivity products. These seasonal trends materially affect our quarter-to-quarter operating results. Our revenues are typically higher in the third and fourth quarters due to the back-to-school and holiday seasons as well as purchasers of PCs making purchase decisions based on their calendar year-end budgeting requirements, except for the fourth quarter of 2000 due to economic slowdown.

We are currently expanding our sales in international markets, particularly in Asia, Europe and South America. To the extent that our revenues 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.

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

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 original equipment manufacturer 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 original equipment manufacturer is typically limited during the initial release to evaluate product performance, and

- the development and commercial introduction of products incorporating new technologies frequently are delayed.

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

We expect that our operating expenses will continue to increase in the future and these increased expenses may diminish 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. Although we intend to control expenses given the current PC market environment, in order to expand and develop our core business, we still anticipate that our expenses will continue to increase over at least the next three years as we:

- further develop and introduce new applications and functionality for our host signal processing technology,

- conduct research and development and explore emerging product opportunities in digital technologies and wireless 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 revenues to meet these additional expenses. Any failure to significantly increase our revenues as we implement our product, service, distribution and strategic relationship strategies would result in a decrease in our overall profitability.

To date, we have principally relied upon our distributor sales organization for product sales to smaller accounts. Our direct sales efforts have focused principally on board manufacturers and smaller PC original equipment manufacturers. To increase penetration of our target customer base, including large, tier-one original equipment manufacturers, we must significantly increase the size of our direct sales force and organize and deploy sales teams targeted at specific domestic tier-one original equipment manufacturer accounts. If we are unable to expand our sales to additional original equipment manufacturers, our revenues may not meet analysts' expectations, which could cause our stock price to drop.

We rely heavily on our intellectual property rights which offer only limited protection against potential infringers. Unauthorized use of our technology may result in development of products that compete with our products, which could cause our market share and our revenues to be reduced.

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 45 patents, a number of which cover technology that is considered essential for International Telecommunications Union standard communications solutions, and also have 27 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 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.

We have received communications from Lucent and Dr. Brent Townshend, and may receive communications from other third parties in the future, asserting that our products infringe on their intellectual property rights, that our patents are unenforceable or that we have inappropriately licensed our intellectual property to third parties. 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. Should we cross license our intellectual property in order to obtain licenses, we may no longer be able to offer a unique product. To date, we have not obtained any licenses from Lucent or Dr. Townshend because we believe that both Lucent 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 International Telecommunications Union. Other than the ESS Technology and Smart Link lawsuits described elsewhere in the notes to financial statements, no material lawsuits relating to intellectual property are currently filed against us.

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 Lucent, Motorola and Texas Instruments, 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 result in a decrease in our revenues and profitability.

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 accrued for negotiated license fees and estimated royalty settlements related to existing and probable claims of patent infringement. If the actual settlements exceed the amounts accrued, additional losses could be significant, which would adversely affect future operating results.

We recorded an accrual for estimated future royalty payments for relevant technology of others used in our product offerings in accordance with SFAS No. 5, "Accounting for Contingencies." The estimated royalties accrual reflects management's broader litigation and cost containment strategies, which may include alternatives such as entering into cross-licensing agreements, cash settlements and/or ongoing royalties based upon our judgment that such negotiated settlements would allow management to focus more time and financial resources on the ongoing business. Accordingly, the royalties accrual reflects estimated costs of settling claims rather than continuing to defend our legal positions, and is not intended to be, nor should it be interpreted as, an admission of infringement of intellectual property, valuation of damages suffered by any third parties or any specific terms that management has predetermined to agree to in the event of a settlement offer. We have accrued our estimate of the amount of royalties payable for royalty agreements already signed, agreements that are in negotiation and unasserted but probable claims of others using advice from third party technology advisors and historical settlements. Should the final license agreements result in royalty rates significantly higher than our current estimates, our business, operating results and financial condition could be materially and adversely affected.

Competition in the connectivity market is intense, and if we are unable to compete effectively, the demand for, or the prices of, our products may be reduced.

The connectivity device market is intensely competitive. We may not be able to compete successfully against current or potential competitors. Our current competitors include Conexant, ESS Technology, Lucent Technologies, Motorola, Smart Link, Broadcom and Texas Instruments. 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 broadband and/or wireless technologies or on emerging communication technologies, which may render our existing or future products obsolete or otherwise unmarketable. We believe that these competitors may include Aironet, Alcatel, Analog Devices, Aware, Breezecom, Centillium Communications, Efficient Networks, Globespan, Intersil, ITeX, Metalink, Proxim, Symbol Technologies and Virata.

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.

In order for us to maintain our profitability and continue to introduce and develop new products for emerging markets, we must attract and retain our executive officers and qualified technical, sales, support and other administrative personnel.

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

Competition for personnel, especially engineers and marketing and sales personnel in Silicon Valley, is intense. We are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, background and industry experience. As of December 31, 2000, we employed a total of 76 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.

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

Our ability to successfully sell our products and implement our business plan in rapidly evolving markets requires an effective management planning process. Future product expansion efforts could be expensive and put a strain on our management by significantly increasing the scope of their responsibilities and resources by increasing the demands on their management abilities during periods of constrained spending. We are focusing on the broadband and wireless areas as well as placing substantial effort on sustaining our leadership position in the analog modem space. To effectively manage our growth in these new technologies, we must enhance our marketing, sales, research and development areas. With revenues either stabilizing or declining these efforts will have to be accomplished with limited funding. This will require management to effectively manage significant technological advancement within existing budgets.

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, assembly 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

. 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. Further, some of these companies are located near earthquake fault lines. While we have not experienced any material problems to date, 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 design, market and sell application specific integrated circuits and outsource the manufacturing and assembly of the integrated circuits to third party fabricators. The majority of our products and related components are manufactured by three principal companies: Taiwan Semiconductor Manufacturing Corporation, Kawasaki/LSI and Silicon Labs. We expect to continue to rely upon these third parties for these services. Currently, the data access arrangement 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. Although we believe that we would be able to qualify an alternative manufacturing source for data access arrangement chips within a relatively short period of time, this transition, if necessary, could result in loss of purchase orders or customer relationships, which could result in decreased revenues.

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. To date, we have not been made aware of any significant software errors or failures in our products. However, despite testing by us and by current and potential customers, errors may be found in new products after commencement of commercial shipments, resulting in loss of customers or delay in market acceptance.

Connectivity devices generally require individual government approvals throughout the world to operate on local telephone networks. These certifications collectively referred to as homologation can delay or impede the acceptance of our products on a worldwide basis.

Connectivity products require extensive testing prior to receiving certification by each government to be authorized to connect to their telephone systems. This testing can delay the introduction or, in extreme cases, prohibit the product usage in a particular country. International Telecommunications Union standards seek to provide a worldwide standard to avoid these issues, but they do not eliminate the need for testing in each country. In addition to these government certifications, individual Internet Service Providers, or "ISPs", can also have unique line conditions that must be addressed. Since most large PC manufacturers want to be able to release their products on a worldwide basis, this entire process can significantly slow the introduction of new products.

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 these markets, our revenues may stagnate or decrease.

Our success depends on the growth of the market for applications using our host signal processing technology. Market demand for host signal processing technology depends primarily upon the cost and performance benefits relative to other competing solutions. This market has only recently begun to develop and may not develop at the growth rates that have been suggested by industry estimates. 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 revenues will decrease.

Further, we are in the process of developing next generation products and applications which improve and extend upon our host signal processing technology. If these products are not accepted in the markets when they are introduced, our revenues and profitability will be negatively affected. We only recently introduced our Solsis(TM) modem for the embedded market. We expect sales of this product to increase during the first quarter of 2001 and become visible in our product mix by the second quarter of 2001. However, if the market does not accept our product, or if PC demand remains weak, our revenues will be adversely affected.

In addition, distribution models need to change in order for some of our products to be accepted. For example, in order for our LiteSpeed(TM) product to be adopted by a mass market, the distribution model for broadband technology must change from the current complicated provisioning model (which requires a technician to visit the home to install additional equipment) to a 56K/V.90 modem distribution model (where the modem is bundled inside a personal computer or alternative access device.) We believe that the market will in fact move towards the 56K/V.90 business model towards the end of 2001. However, if it does not, then our LiteSpeed(TM) product may not be accepted by the mass market, and our revenues will be adversely affected.

Our industry is characterized by rapidly changing technologies. If we do not adapt to these technologies, our products will become obsolete.

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-International Telecommunications Union standard 56 Kbps modem in the second half of 1997 and a V.90 International Telecommunications Union standard 56 Kbps modem in early 1998. During 2001, we expect to see the introduction of additional International Telecommunications Union standards referred to as V.92 and V.44. 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 digital subscriber line and wireless. In the digital subscriber line area, various speed and technologies are currently being considered in the market such as G.Lite at 1.5Mbps, G.DMT at 8Mbps and VDSL at 52 Mbps. The wireless area includes competing standards such as Bluetooth, HomeRF 1.0 and HomeRF 2.0 as well as 802.11b and 802.11a. 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. These new technology developments have taken longer time than expected. If we are not successful in our response, our products will become obsolete and we will not be able to compete effectively.

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

The jurisdiction of the Federal Communications Commission, or FCC, extends to the entire communications industry, including our customers and their products and services that incorporate our products. Future FCC regulations affecting the broadband access services industry, our customers or our products may harm our business. For example, future FCC regulatory policies that affect the availability of data and Internet services may impede our customers' penetration into their markets or affect the prices that they are able to charge. In addition, international regulatory bodies are beginning to adopt standards for the communications industry. Although our business has not been hurt by any regulations to date, in the future, delays caused by our compliance with regulatory requirements may result in order cancellations or postponements of product purchases by our customers, which would reduce our profitability.

We rely on a continuous power supply to conduct our operations, and California's current energy crisis could disrupt our operations and increase our expenses.

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel, which are primarily located in or near our principal headquarters in Milpitas, California. California is currently experiencing power outages due to a shortage in the supply of power within the state. In anticipation of continuing power shortages, the electric utility industry in California has warned power consumers to expect rolling blackouts throughout the state, particularly during the summer months when power usage peaks. We currently do not have backup generators or alternate sources of power in the event of a blackout, and our current insurance does not provide coverage for any damages we or our customers may suffer as a result of any interruption in our power supply. Although the blackouts we have experienced to date have not materially impacted our business, an increase in the frequency or length of the blackouts could damage our reputation, harm our ability to retain existing customers and to obtain new customers, and could result in lost revenue, any of which could substantially harm our business and results of operations. Furthermore, the deregulation of the energy industry has caused power prices to increase. If wholesale prices continue to increase, our operating expenses will likely increase, as the majority of our facilities are located in California.

Risks Related to our Common Stock

Our stock price may be volatile based on a number of factors, some of which are not in our control.

The trading price of our common stock has been highly volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, many of which are out of our control, including:

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

In addition, the Nasdaq National Market, where many publicly held telecommunications companies, including our company, are traded, often experiences extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. The trading prices of many technology companies continue to trade at multiples of earnings or revenues which are substantially above historic levels. These trading prices and multiples may not be sustainable. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of an individual company's securities, securities class action litigation often has been instituted against that company. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources.

Substantial future sales of our common stock in the public market may depress our stock price.

Our current stockholders hold a substantial number of shares, which they will be able to sell in the public market in the near future. Sales of a substantial number of shares of our common stock could cause our stock price to fall.

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

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

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

Further, the issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock may drop. The board of directors has not elected to issue additional shares of preferred stock since the initial public offering on October 19, 1999.

Item 2: Properties

In September 1999, we entered into an operating lease for our new headquarter facilities in Milpitas, California. This office building is 100,026 square feet and the lease expires February 2003. In addition, we have a subsidiary office in Waterbury, Connecticut, an engineering office in Taipei, Taiwan, and sales support offices in Tokyo, Japan, Taipei, Taiwan and Seoul, Korea. We believe that we have adequate space for our current needs.

Item 3: Legal Proceedings

We record an accrual for estimated future royalty payments for relevant technology of others used in our product offerings in accordance with SFAS No. 5, "Accounting for Contingencies." The estimated royalties accrual reflects management's broader litigation and cost containment strategies, which may include alternatives such as entering into cross-licensing agreements, cash settlements and/or ongoing royalties based upon our judgment that such negotiated settlements would allow management to focus more time and financial resources on the ongoing business. We have accrued our estimate of the amount of royalties payable for royalty agreements already signed, agreements that are in negotiation and unasserted but probable claims of others using advice from third party technology advisors and historical settlements. Should the final license agreements result in royalty rates significantly different than our current estimates, our business, operating results and financial condition could be materially and adversely affected.

As of December 31, 2000 and 1999, we had accrued royalties of approximately $11.7 million and $7.9 million, respectively. Of these amounts, approximately $1.2 million and $700,000 represent amounts accrued based upon signed royalty agreements as of December 31, 2000 and 1999, respectively. The remainder of accrued royalties represents management's estimate within a range of possible settlement losses as of each date presented. While management is unable to estimate the maximum amount of the range of possible settlement losses, it is possible that actual losses could exceed the amounts accrued as of each date presented.

On April 9, 1999, ESS Technology Inc. ("ESS") 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 International Telecommunications Union-related patents to ESS on fair, reasonable and non-discriminatory terms. ESS's complaint includes claims based on antitrust law, patent misuse, breach of contract and unfair competition. In its complaint, ESS also seeks a declaration that some of our International Telecommunications Union-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.

We filed an answer to ESS's complaint by moving to dismiss on the basis that ESS had not alleged facts sufficient to state a legal claim. ESS responded by amending its complaint to include additional factual and legal allegations and filing an opposition to the motion to dismiss. On August 2, 1999, the Court denied our motion to dismiss as moot in view of ESS's amended complaint.

On August 12, 1999, we filed a motion to dismiss ESS's amended complaint. On November 4, 1999, the United States District Court in San Jose, California, granted a dismissal of the antitrust and state unfair competition claims, ruling that ESS had failed to allege injury to competition in the market for modems. The Court allowed the specific performance of contract claim to stand, ruling that the license terms granted to other market participants would provide a sufficient basis for defining contractual terms that could be applied to ESS. The Court also denied the motion with respect to dismissal of the declaratory relief claims, holding that they were sufficiently ripe for adjudication. The Court granted ESS leave to again amend its complaint, which it did on November 24, 1999, by filing a second amended complaint.

On January 14, 2000, we filed a motion to dismiss the second amended complaint. ESS filed its opposition to the motion on January 21, 2000 and we filed our reply on January 28, 2000. On February 11, 2000, the Court heard oral argument on our motion to dismiss the second amended complaint. On February 14, 2000, the Court dismissed ESS's complaint and gave ESS twenty days to amend its complaint. In particular, the Court stated that ESS must allege the relevant geographic market and product market in the complaint. In response to the Court's February 14, 2000 order, ESS filed its third amended complaint on March 6, 2000.

On March 15, 2000, we filed a motion to dismiss ESS's third amended complaint. ESS responded on March 31, 2000 and we filed reply papers on April 6, 2000. A case management conference was held on April 21, 2000. The motion was denied on July 3, 2000. The judge ordered that discovery proceed only on the issue of whether we license our patents on a reasonable and non-discriminatory basis. This initial discovery period is currently scheduled to end on August 10, 2001. During this period of time, the parties will disclose experts and exchange expert reports on the above issue. A further case management conference is scheduled to be held on August 24, 2001.

On August 7, 2000, we filed counterclaims alleging that ESS infringes our five patents that are the subject of ESS's complaint. In addition, on October 3, 2000, the parties stipulated to permit us to amend our counterclaims to include claims that ESS infringes three of our additional patents. Six of our eight patents asserted against ESS are International Telecommunications Union-related patents. These infringement claims will be litigated, if necessary, only after the issue of whether we license our patents on a reasonable and non-discriminatory basis is resolved. The other two patents asserted against ESS are not related to International Telecommunications Union standards.

Due to the nature of litigation generally, 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 International Telecommunications Union-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 position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this claim. We are vigorously contesting, and intend to continue to vigorously contest, all of ESS's claims. We are vigorously litigating, and intend to continue to vigorously litigate our claims against ESS.

On August 9, 2000, we filed a complaint for patent infringement in the United States District Court, District of Delaware against Smart Link Ltd. and Smart Link Technologies, Inc. (collectively, "Smart Link"). Our complaint alleges that Smart Link infringed four of our patents. On August 18, 2000, we amended our complaint to claim that Smart Link's infringement was willful.

On September 18, 2000, Smart Link answered our amended complaint and counterclaimed against us. Smart Link's answer denied our allegations of infringement. Smart Link's counterclaims seek declaratory relief that our asserted patents are invalid and not infringed. Smart Link also counterclaims for tortious interference with a business relation. On October 10, 2000, we replied to Smart Link's counterclaims and moved to strike portions of Smart Link's answer, which resulted in Smart Link agreeing to withdraw the offending portions of the answer. On January 12, 2001, the parties exchanged initial disclosures and discovery is underway. On March 5, 2001, we filed a motion in this case to amend our complaint to withdraw one patent already asserted against Smart Link and assert a new patent against Smart Link. If our motion is granted, the number of patents asserted against Smart Link will remain at four patents. Smart Link's response to this motion was due on March 19, 2001. The judge has scheduled this case for trial beginning on January 22, 2002.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this lawsuit. We are vigorously litigating, and intend to continue to vigorously litigate, our claims against Smart Link.

On August 25, 2000, Smart Link Ltd. filed a complaint against us in the United States District Court, District of Massachusetts, alleging that we infringe two of Smart Link Ltd.'s patents.

On October 11, 2000, we answered Smart Link Ltd.'s complaint and counterclaimed against Smart Link Ltd. and Smart Link Technologies, Inc. Our answer denies Smart Link Ltd.'s allegations of infringement. Our counterclaims seek declaratory relief that the asserted Smart Link patents are invalid and not infringed. Our counterclaim also alleges that Smart Link infringes one of our patents.

The parties are to exchange initial disclosures and a case management conference was held on March 23, 2001.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this 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 this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this claim. We are vigorously contesting, and intend to continue to vigorously contest, all of Smart Link's claims.

On September 15, 2000, we filed a complaint Under Section 337 of the Tariff Act of 1930, as Amended with the United States International Trade Commission ("ITC"). Our complaint requested that the ITC commence an investigation into whether Smart Link and ESS are engaged in unfair trade practices by selling for importation into the United States, directly or indirectly importing into the United States, or selling in the United States after importation devices which infringe our patents. Four of our patents were asserted against Smart Link and two of those four patents were asserted against ESS. A supplemental complaint was filed on October 3, 2000. On February 5, 2001, we filed a motion to reduce the number of patents asserted against Smart Link from four patents to three patents. This motion was granted February 16, 2001.

On October 11, 2000, the ITC voted to institute an investigation into our complaint. On October 18, 2000, notice of the ITC investigation was published in the Federal Register. Smart Link and ESS filed their responses to our complaint and the notice of investigation on November 13, 2000 and October 31, 2000, respectively. Discovery is currently underway. By order of the administrative law judge, the ITC investigation is to be completed by December 18, 2001.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this lawsuit. We are vigorously litigating, and intend to continue to vigorously litigate, our claims against Smart Link and ESS.

We are subject to various claims which arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a material adverse effect on our financial position, liquidity or results of operations.

Item 4: Submission of Matters to a Vote of Security Holders

No stockholder votes took place during the fourth quarter of the year ended December 31, 2000.

Part II

Item 5: Market for Registrant's Common Equity and Related Stockholder Matters

Price Range of Common Stock

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

	High	Low
Fiscal 2000:		
Fourth Quarter	$ 22.63	$ 8.88
Third Quarter	$ 36.50	$ 22.94
Second Quarter	$ 62.50	$ 25.06
First Quarter	$ 95.88	$ 44.19
Fiscal 1999:		
Fourth Quarter (from October 19, 1999)	$ 52.50	$ 23.13

The closing sale price of our common stock as reported on the Nasdaq National Market on December 29, 2000, the last trading day of fiscal year 2000, was $10.75 per share. As of that date there were 133 holders of record of our common stock.

Dividends

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our earnings, if any, for use in our business and do not anticipate paying any cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend upon a number of factors, including future earnings, the success of our business activities, regulatory capital requirements, the general financial condition and our future prospects, general business conditions and such other factors as the Board of Directors may deem relevant.

Item 6: Selected 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 Form 10-K. The statement of operations data for the years ended December 31, 2000, 1999 and 1998 and the balance sheet data as of December 31, 2000 and 1999 are derived from audited financial statements included elsewhere in this Form 10-K. The statement of operation data for the years ended December 31, 1997 and 1996 and the balance sheet data as of December 31, 1998, 1997 and 1996 are derived from audited financial statements not included in this Form 10-K. The operating results for the year ended December 31, 2000 include the $1.6 million write-off of in-process research and development costs related to our acquisition of Voyager Technologies, Inc. For the year ended December 31, 1998, operating results include the $6.1 million write-off of in-process research and development costs related to our acquisition of Communications Systems Division. The operating results for the year ended December 31, 1999 include an extraordinary loss of $1.6 million related to the early extinguishment of debt.

	Year Ended December 31,				
	2000	1999	1998	1997	1996
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenues	$97,183	$76,293	$33,004	$24,009	$16,573
Cost of revenues	53,940	39,428	13,878	12,924	9,182
Gross profit	43,243	36,865	19,126	11,085	7,391
Operating expenses:					
Research and development	14,130	10,317	4,932	3,348	2,152
Sales and marketing	14,293	10,523	5,624	3,168	839
General and administrative	8,058	5,459	2,169	1,612	477
Acquired in-process research and development	1,600	-	6,130	-	-
Goodwill amortization	2,638	-	-	-	-
Amortization of deferred compensation	1,308	790	43	-	41
Total operating expenses	42,027	27,089	18,898	8,128	3,509
Income from operations	1,216	9,776	228	2,957	3,882
Other income, net	7,288	271	479	299	127
Income before provision for income taxes	8,504	10,047	707	3,256	4,009
Provision for income taxes	2,366	3,014	212	955	1,005
Net income before extraordinary loss	6,138	7,033	495	2,301	3,004
Extraordinary loss, net of income taxes	-	(1,611)	-	-	-
Net income	$ 6,138	$ 5,422	$ 495	$ 2,301	$ 3,004
Basic earnings per share before extraordinary loss	$ 0.34	$ 1.33	$ 0.21	$ 1.13	$ 4.79
Basic earnings per share after extraordinary loss	$ -	$ 1.03	$ -	$ -	$ -
Shares used in computing basic earnings per share	18,011	5,287	2,355	2,032	627
Diluted earnings per share before extraordinary loss	$ 0.30	$ 0.48	$ 0.04	$ 0.20	$ 0.29
Diluted earnings per share after extraordinary loss	$ -	$ 0.37	$ -	$ -	$ -
Shares used in computing diluted earnings per share	20,514	14,666	12,325	11,645	10,280

	December 31,				
	2000	1999	1998	1997	1996
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$118,380	$ 98,290	$12,988	$ 6,685	$ 5,585
Working capital	130,911	89,892	14,011	12,840	6,236
Total assets	192,956	130,605	45,996	23,148	14,110
Long term debt, net of current portion	-	-	14,709	38	5
Total stockholders' equity	159,847	104,278	15,139	13,610	6,689

Item 7: 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 Form 10-K. Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses and revenue mix. These forward looking statements include, among others, those statements including the words, "may," "will," "plans," "seeks," "expects," "anticipates," "intends," "believes" and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described below and elsewhere in this Form 10-K, and in other documents we file with the SEC. 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 "Business" and elsewhere in this Form 10-K.

Overview

We provide cost-effective software-based communications solutions that address high-speed Internet connectivity requirements for existing and emerging technologies. Our communications products enable Internet access through PCs and alternative Internet access devices. Our soft modem products consist of a hardware chipset containing a proprietary host signal processing software architecture which allows for the utilization of the computational and processing resources of a host central processor, effectively replacing special-purpose hardware required in conventional hardware-based modems. Together, the combination of the chipset and software drivers are a component part within a computer which allows for telecommunications connectivity. By replacing hardware with a software solution, our host signal processing technology lowers costs while enhancing capabilities.

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 December 31, 1995 to December 31, 2000, our total headcount increased from 18 to 198. 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 $24.0 million in 1997 to $33.0 million in 1998, $76.3 million in 1999 and $97.2 million in 2000.

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 91%, 99% and 76% of our total sales for the years ended 2000, 1999 and 1998, respectively. The predominance of our sales is 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 original equipment manufacturer 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 original equipment manufacturer customers, both in the United States and internationally. Industry statistics indicate that approximately two-thirds of modems manufactured in Asia are sold in North America.

We recognize revenues from product sales to customers upon shipment, except sales to distributors which are recognized only when distributors have sold the product to the end-user. We provide for estimated sales returns and price rebate allowances related to sales to OEMs at the time of shipment. We recognize revenues from non-recurring engineering contracts as contract milestones are achieved. Revenues from technology licenses are recognized after delivery has occurred and the amount is fixed and determinable, generally based upon the contract's nonrefundable payment terms. To the extent there are extended payment terms on these contracts, revenue is recognized as the payments become due and the cancellation privilege lapses. To date, we have not offered post-contract customer support. Customer payment terms generally range from letters of credit collectible upon shipment to open accounts payable 60 days after shipment.

Results of Operations

Years ended December 31, 2000, 1999 and 1998
(All amounts in tables, other than percentages, are in thousands)

Revenues

	2000	1999	1998
Revenues	$97,183	$76,293	$33,004
% change from prior period	27.4%	131.2%	37.5%

Our revenues primarily consist of product sales of soft modems to board manufacturers and distributors in Asia. Revenues increased $20.9 million for the year ended December 31, 2000 compared to the same period in 1999. These increases were attributable to increased units sold to tier-one OEMs such as Compaq Corporation, Intel Corporation, Fujitsu Limited and NEC Corporation, and to a lesser extent, increased license revenues recognized during fiscal year 2000. The increase in sales volume was partly offset by downward pressure on average selling prices and sales discounts to customers. Our average selling prices decreased from December 31, 1999 to December 31, 2000, mainly due to the downward pricing pressure which is commonly seen in the industry. However, we believe this decrease in selling prices has generated the increase in sales volume.

Revenues increased $43.3 million for 1999 compared to 1998. The revenue increase was attributable to unit growth following the implementation of a new sales channel partners program and to the general acceptance of our products in the sub-$1,000 PC marketplace. The increase in sales volume was partly offset by downward pressure on average selling prices and sales discounts to customers. Our average selling prices decreased 42% from 1998 to 1999, mainly due to the elimination of one out of three chips in the hardware component of the MicroModem product. We believe that this 33% hardware reduction combined with the downward pricing pressure commonly seen in the industry resulted in the decreases in the average selling price of our MicroModem product. However, we believe this decrease has generated the increase in our market share.

Gross Profit

	2000	1999	1998
Gross profit	$43,243	$36,865	$19,126
Percentage of revenues	44.5%	48.3%	58.0%
% change from prior period	17.3%	92.7%	72.5%

Cost of revenues consists primarily of chipsets we purchase from third party manufacturers and also includes amortization of intangibles related to the Communications Systems Division ("CSD") acquisition, accrued intellectual property royalties, cost of operations, provision for inventory obsolescence and distribution costs.

Gross profit increased $6.4 million for the year ended December 31, 2000 compared to the same period last year due to increased volume, partially offset by a decline in the per-unit average gross profit. Gross profit as a percentage of revenue decreased from 48.3% for the year ended December 31, 1999 to 44.5% for the year ended December 31, 2000 because of a shift to higher volume, lower margin sales to OEMs and, generally, average selling prices decreased faster than the rate of cost reductions. On the other hand, higher-margin license revenues favorably impacted gross margins during the year, partially offsetting the decrease from average selling prices.

Gross profit increased $17.7 million for 1999 compared to 1998. The increase in gross profit was the direct result of increased revenues, inventory cost reduction and economies of scale. Gross profit as a percentage of revenue decreased from 58.0% for the year ended December 31, 1998 to 48.3% for the year ended December 31, 1999 as a result of a reversal of royalty reserves of $3.0 million. Excluding this reversal, gross profit would have been 48.9% in 1998. Upon consummation of the CSD acquisition in December 1998, we reversed $3.0 million of previously recorded accrued royalties because CSD had licensing agreements with payment terms more favorable than management's previous estimates of the cost of obtaining such licensing rights through our own negotiations. Additionally, we believed that future settlements with other third parties were more likely after the CSD acquisition to include cross licensing of our intellectual property rather than payments of license fees or royalties, thus reducing the estimated amount of accrued royalty liability. Nonrecurring engineering and licensing revenues, which are characterized by high gross margins, were a reduced percentage of total sales in 1999 compared to 1998. This reduction adversely impacted our profit margins.

Research and Development

	2000	1999	1998
Research and development	$14,130	$10,317	$4,932
Percentage of revenues	14.5%	13.5%	14.9%
% change from prior period	37.0%	109.2%	47.3%

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 $3.8 million for the year ended December 31, 2000 compared to 1999 as we continue to invest heavily in the development of the G.DMT, wireless and embedded modems, as well as a V.92 upgrade. Approximately 68% of research and development expenses for the year ended December 31, 2000 were payroll related. As a percentage of revenues, we expect that our research and development expenses will remain at the same level in 2001 as we continue to develop new products.

Research and development expenses increased $5.4 million for 1999 compared to 1998 due to the addition of personnel to develop new products related to the G.Lite, Modem Riser card and HIDRA projects as well as engineering work related to V.90 modems. HIDRA is one of our product names and is also an acronym for High Density Remote Access. As a percentage of revenues, research and development expenses decreased in 1999 because revenue growth was proportionally greater than the increase in research and development expenses. Approximately 68% of research and development expenses for the year ended December 31, 1999 were payroll related.

Sales and Marketing

	2000	1999	1998
Sales and marketing	$14,293	$10,523	$5,624
Percentage of revenues	14.7%	13.8%	17.0%
% change from prior period	35.8%	87.1%	77.5%

Sales and marketing expenses consist primarily of personnel costs, sales commissions and marketing costs. Sales commissions payable to our distributors are recognized when our products are "sold through" from the distributors to end-users so that the commission expense is matched with related recognition of revenues. Marketing costs include promotional goods, public relations and trade shows.

Sales and marketing expenses increased $3.8 million for the year ended December 31, 2000 compared to 1999. The increase reflects the increased costs to support higher sales and the addition of sales and marketing personnel to develop new accounts and drive new product development and product launches. Public relation costs, trade shows, press tours, sales programs, the production of collateral sales materials and travel costs also increased from a year ago. As a percentage of revenues, we expect that our sales and marketing expenses will remain at the same level in 2001.

Sales and marketing expenses increased $4.9 million for 1999 compared to 1998. The increase reflects the addition of sales and marketing personnel to develop new accounts, support customers, and to drive new product development and product launches. We also expanded our sales regions geographically to include Japan and Korea. The production of collateral sales materials, travel costs, trade shows, sales programs and press tours also resulted in the increase in our sales and marketing expenses. In addition, we implemented a new sales force automation system in the third quarter of 1999 to more efficiently manage our increased sales volume.

General and Administrative

	2000	1999	1998
General and administrative	$8,058	$5,459	$2,169
Percentage of revenues	8.3%	7.2%	6.6%
% change from prior period	47.6%	151.6%	34.6%

General and administrative expenses include costs associated with our general management 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.

General and administrative expenses increased $2.6 million for the year ended December 31, 2000 compared to 1999. The increase was primarily due to our increase in staffing and related infrastructure to support our continued growth and the increased legal costs associated with the patent infringement litigation against Smart Link and ESS. We expect that our general and administrative expenses will continue to increase in 2001 as a result of the patent infringement litigation.

General and administrative expenses increased $3.3 million for 1999 compared to 1998. This increase reflected additional legal costs related to an increased number of contract negotiations and patent submissions, additional tax planning, and litigation expenses related to the Motorola lawsuit. We also incurred additional expenses related to an increase in personnel.

Acquired In-Process Research and Development

	2000	1999	1998
Acquired in-process research and development..........................	$1,600	$ --	$6,130
Percentage of revenues..	1.6%	--	18.6%

Upon completion of the Voyager acquisition on February 24, 2000, we immediately expensed $1.6 million representing purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. The $1.6 million expensed as in-process research and development was approximately 9% of the purchase price and was attributed and supported by a discounted cash flow analysis that identified revenues and costs on a project by project basis. 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 following in-process projects existed at Voyager as of the acquisition date: Bluetooth, HomeRF, Direct Sequence Cordless, Bluetooth/HomeRF Combo, Bluetooth/HomeRF/Direct Sequence, Wireless Gas Tank Sensor, Wireless GPS and Wireless Industrial Garage Door Opener projects.

The value of in-process research and development 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 risk-adjusted discount rate applied to the projects' cash flows was 15% for existing technology and 20% for the in-process technology. Based upon assessment of each in-process project's development stage, including relative difficulty of remaining development milestones, it was determined that application of a 20% discount rate was appropriate for all acquired in-process projects. The valuation includes cash inflows from in-process technology through 2005 with revenues commencing in 2000 and increasing significantly in 2001 before declining in 2005. The projected total revenue of Voyager was broken down to revenue attributable to the in-process technologies, existing technologies, core technology and future technology. The revenue attributable to core technology was determined based on the extent to which the in-process technologies rely on the already developed intellectual property. The Bluetooth and HomeRF projects were approximately 25% 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 2000. The Direct Sequence Cordless project was approximately 65% complete at the time of the valuation and the expected time frame for achieving this product release was assumed to be in the second half of 2000. The Bluetooth/HomeRF Combo and Bluetooth/HomeRF/Direct Sequence projects were approximately 10% 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 2000 and the first half of 2000, respectively. The Wireless Gas Tank Sensor and the Wireless Industrial Garage Door Opener projects were approximately 70% complete at the time of the valuation and the expected time frame for achieving these product releases was assumed to be 2001. The Wireless GPS was approximately 50% complete at the time of the valuation and the expected time frame for achieving this product release was assumed to be in the second half of 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 were to be completed in the next 6 to 18 months in order for Voyager's projects to become implemented in a commercially viable timeframe. Management's cash flow and other assumptions utilized at the time of acquisition do not materially differ from historical pricing/licensing, margin, and expense levels of the Voyager group prior to acquisition.

Approximately $0.5 million was attributed to core wireless technology and royalty revenue associated with the Wireless Water Meter Reading Device project.

Amortization of Deferred Compensation

	2000	1999	1998
Amortization of deferred compensation	$1,308	$ 790	$ 43
Percentage of revenues	1.3%	1.0%	0.1%
% change from prior period	65.6%	1,737.2%	--

In connection with the grant of stock options to employees prior to our initial public offering, we have recorded deferred compensation representing the difference between the exercise price and deemed fair market value of our common stock on the date these stock options were issued.

The amortization of deferred compensation increased $518,000 for the year ended December 31, 2000 compared to 1999 because 2000 reflects a full year of amortization whereas 1999 reflects amortization from the date of grant, which tended to be in the second half of 1999. We expect that the amortization of deferred compensation to remain at approximately $320,000 per quarter through the third quarter of 2003.

In December 2000, an employee and us mutually agreed to rescind an option exercise to purchase 30,000 shares of common stock which occurred in January 2000. There was no effect on our financial position or results of operations for the year ended December 31, 2000 as a result of this rescission.

The amortization of deferred compensation increased $747,000 for 1999 compared to 1998 primarily due to a higher deemed fair market value of our stock and additional stock options granted to new employees. The amount of deferred compensation expense recorded for the grant of stock options to employees in 1999 was $5.4 million, which is being amortized over the vesting periods of the options.

Other Income, Net

	2000	1999	1998
Other income, net	$7,288	$ 271	$ 479
Percentage of revenues	7.5%	0.4%	1.4%

Other income, net, consists of interest income, net of interest expense. Interest income is expected to fluctuate over time. Other income, net, increased $7.0 million for the year ended December 31, 2000 compared to 1999 primarily due to interest earned from the proceeds from the initial public offering and secondary public offering and the elimination of interest expense on the loan used to acquire Communications Systems Division.

Other income, net, decreased $208,000 for 1999 compared to 1998 primarily due to the interest expense related to the loan used to acquire Communications Systems Division, offset by interest income generated by cash balances.

Provision for Income Taxes

	2000	1999	1998
Provision for income taxes	$2,366	$3,014	$ 212
Effective tax rate	27.8%	30.0%	30.0%

Provision for income taxes decreased for the year ended December 31, 2000 compared to 1999 due to lower taxable income. The effective tax rate decreased from 30.0% a year ago to 27.8% mainly due to an increase in our business in foreign jurisdictions with lower tax rates.

Provision for income taxes increased $2.8 million for 1999 compared to 1998 due to higher taxable income, while the effective tax rate remained at approximately 30.0%.

We have $5.7 million in deferred tax assets as of December 31, 2000. We believe that our effective tax rate will continue to be below the statutory tax rate of 35% due to international sales and profits through our wholly owned subsidiaries, which are taxed at rates below the statutory tax rate in the U.S.

Extraordinary Items

	2000	1999	1998
Income before extraordinary item	$6,138	$ 7,033	$ 495
Extraordinary loss on extinguishment of debt, net of income taxes of $135	--	(1,611)	--
Net income	$6,138	$ 5,422	$ 495

On October 25, 1999, we retired $15.0 million of notes payable with proceeds from the initial public offering. In connection with the early retirement of debt, we incurred a $1.6 million, net of taxes, extraordinary loss for prepayment penalties and the write-off of deferred debt charges.

Liquidity and Capital Resources

	2000	1999	1998
Net cash provided by (used in) operating activities	$ (5,215)	$ 21,541	$ 2,719
Net cash used in investing activities	(47,236)	(56,380)	(17,344)
Net cash provided by financing activities	33,143	66,556	20,928
Cash, cash equivalents and short-term investments at the end of year	118,380	98,290	12,988
Working capital at the end of year	130,911	89,892	14,011

For the year ended December 31, 2000, net cash used in operating activities was $5.2 million, compared to net cash provided by operating activities of $21.5 million for the year ended December 31, 1999. The primary source for the use of cash in operating activities for the year ended December 31, 2000 was due to the increase in accounts receivable. Net cash used in investing activities for the year ended December 31, 2000 consists of the acquisition of Voyager Technologies and BlueCom Technology of $5.1 million, purchases of property and equipment of $3.0 million and purchases of short-term investments of $109.6 million, offset by maturities and sales of short-term investments of $70.5 million. Net cash provided by financing activities for the year ended December 31, 2000 consisted of proceeds from issuance of common stock associated with the secondary public offering and proceeds from stock option exercises and shares issued through the employee stock purchase plan.

As of December 31, 2000, we had $118.4 million in cash, cash equivalents and short-term investments, and working capital of $130.9 million. Accounts receivable, as measured in days sales outstanding ("DSO"), was 130 days at December 31, 2000 compared to 26 days in December 31, 1999. Collection terms on our sales to tier-one customers are generally 60 days after shipment, which is standard for our industry. As sales to tier-one customers increase, we expect DSO to increase as compared to prior periods where sales to smaller customers with payment terms of 45 days or less were proportionately greater. However, DSO at December 31, 1999 was abnormally low primarily due to increased cash collection efforts prior to the year-end holiday period, partially offset by the increase in sales to tier-one customers.

The increase in net cash provided by operating activities for 1999 compared to 1998 was primarily due to improved collection in accounts receivable due to the use of letters of credit and higher net income in 1999. Net cash used in investing activities for 1999 reflected the purchases of short-term investments, property and equipment. Net cash provided by financing activities for 1999 consisted of proceeds from the initial public offering, offset by the repayment of the notes payable associated with the Communications Systems Division acquisition.

We believe that our 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 we may seek, even before that 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, the financing may not be obtainable on terms acceptable to us or that are not dilutive to our stockholders.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which requires certain accounting and reporting standards for derivative financial instruments and hedging activities. It applies 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, as amended, will have a material effect on our financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition". In June 2000, the SEC deferred the adoption date for SAB 101 until our fourth quarter ended December 31, 2000. SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. We adopted SAB 101 in October 2000 and this adoption did not have a material effect on our financial position or results of operations.

In March 2000, the FASB issued Financial Standards Board Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25." FIN 44 addresses the application of APB 25 to clarify, among other issues, (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. To the extent FIN 44 covers events occurring during the period after December 15, 1998 or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying the interpretation will be recognized on a prospective basis from July 1, 2000. We adopted FIN 44 in July 2000 and this adoption did not have a material effect on our financial position or results of operations.

Item 7A: Quantitative and Qualitative Disclosures about Market 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.

PCTEL, INC.

Item 8: Financial Statements and Supplementary Data

Index to The Consolidated Financial Statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the stockholders of PCTEL, Inc.:

We have audited the accompanying consolidated balance sheets of PCTEL, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements and the schedule referred to below 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCTEL, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a)2 is presented for purposes 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 audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

San Jose, California
January 26, 2001

PCTEL, INC.

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

	December 31, 2000	December 31, 1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,397	$ 44,705
Short-term investments	92,983	53,585
Accounts receivable, net of allowance for doubtful accounts of $5,043 and $2,213, respectively	24,112	6,555
Inventories	13,837	5,741
Prepaid expenses and other assets	4,369	2,422
Deferred tax asset	3,322	3,211
Total current assets	164,020	116,219
PROPERTY AND EQUIPMENT, net	4,722	3,099
GOODWILL AND OTHER INTANGIBLE ASSETS, net	21,662	8,649
DEFERRED TAX ASSET	2,333	2,365
OTHER ASSETS	219	273
TOTAL ASSETS	$ 192,956	$ 130,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,142	$ 7,140
Accrued royalties	11,656	7,868
Income taxes payable	3,417	3,290
Accrued compensation and benefits	2,464	1,919
Accrued warranty	3,520	1,200
Accrued liabilities	2,910	4,910
Total current liabilities	33,109	26,327
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
STOCKHOLDERS' EQUITY:		
Common stock,$0.001 par value, 50,000,000 shares authorized, 18,817,796 and 16,560,335 shares issued and outstanding at December 31, 2000 and 1999, respectively.	19	17
Additional paid-in capital	146,461	99,334
Deferred compensation	(2,894)	(4,856)
Retained earnings	15,987	9,849
Accumulated other comprehensive income (loss)	274	(66)
Total stockholders' equity	159,847	104,278
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 192,956	$ 130,605

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

PCTEL, INC.

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

	Year Ended December 31,		
	2000	1999	1998
REVENUES	$ 97,183	$ 76,293	$ 33,004
COST OF REVENUES	53,940	39,428	13,878
GROSS PROFIT	43,243	36,865	19,126
OPERATING EXPENSES:			
Research and development	14,130	10,317	4,932
Sales and marketing	14,293	10,523	5,624
General and administrative	8,058	5,459	2,169
Acquired in-process research and development	1,600	-	6,130
Goodwill amortization	2,638	-	-
Amortization of deferred compensation	1,308	790	43
Total operating expenses	42,027	27,089	18,898
INCOME FROM OPERATIONS	1,216	9,776	228
OTHER INCOME, NET:			
Interest expense	(131)	(1,449)	(25)
Interest income	7,419	1,720	504
Total other income, net	7,288	271	479
INCOME BEFORE PROVISION FOR INCOME TAXES	8,504	10,047	707
PROVISION FOR INCOME TAXES	2,366	3,014	212
NET INCOME BEFORE EXTRAORDINARY LOSS	6,138	7,033	495
Extraordinary loss, net of income taxes	-	(1,611)	-
NET INCOME	$ 6,138	$ 5,422	$ 495
Basic earnings per share before extraordinary loss	$ 0.34	$ 1.33	$ 0.21
Basic earnings per share after extraordinary loss	-	1.03	-
Shares used in computing basic earnings per share	18,011	5,287	2,355
Diluted earnings per share before extraordinary loss	$ 0.30	$ 0.48	$ 0.04
Diluted earnings per share after extraordinary loss	-	0.37	-
Shares used in computing diluted earnings per share	20,514	14,666	12,325

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 1997	8,511	$ 9	2,209	$ 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)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	43	-	-	43
Issuance of common stock on exercise of stock options	-	-	203	-	34	-	-	-	34
Issuance of Series C convertible stock warrants in conjunction with notes payable	-	-	-	-	1,350	-	-	-	1,350
Cost incurred related to initial public offering	-	-	-	-	(349)	-	-	-	(349)
Net income	-	-	-	-	-	-	495	-	495
BALANCE, DECEMBER 31, 1998	8,511	9	2,412	2	10,915	(214)	4,427	-	15,139
Deferred compensation expense for stock option grants	-	-	-	-	5,432	(5,432)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	790	-	-	790
Issuance of common stock from initial public offering	-	-	5,290	6	83,629	-	-	-	83,635
Issuance of common stock on exercise of stock options	-	-	346	-	399	-	-	-	399
Conversion of preferred stock to common stock	(8,511)	(9)	8,511	9	-	-	-	-	-
Issuance of common stock from warrant exercises	-	-	1	-	11	-	-	-	11
Costs incurred related to initial public offering	-	-	-	-	(1,140)	-	-	-	(1,140)
Grant of stock options to non-employees	-	-	-	-	88	-	-	-	88
Net income	-	-	-	-	-	-	5,422	-	5,422
Unrealized loss on available-for-sale securities	-	-	-	-	-	-	-	(66)	(66)
BALANCE, DECEMBER 31, 1999	-	-	16,560	17	99,334	(4,856)	9,849	(66)	104,278
Reversal of deferred compensation expense for stock option grants	-	-	-	-	(654)	654	-	-	-
Amortization of deferred compensation	-	-	-	-	-	1,308	-	-	1,308
Issuance of common stock on exercise of stock options	-	-	1,193	1	4,614	-	-	-	4,615
Rescission of stock option exercise	-	-	(30)	-	(14)	-	-	-	(14)
Issuance of common stock from purchase of ESPP shares	-	-	37	-	834	-	-	-	834
Issuance of common stock from secondary offering	-	-	650	1	28,713	-	-	-	28,714
Issuance of common stock from warrant exercises	-	-	159	-	8	-	-	-	8
Issuance of common stock for the acquisition of Voyager Technologies	-	-	238	-	14,318	-	-	-	14,318
Issuance of common stock for the acquisition of BlueCom	-	-	11	-	322	-	-	-	322
Costs incurred related to initial public offering	-	-	-	-	(337)	-	-	-	(337)
Costs incurred related to secondary offering	-	-	-	-	(677)	-	-	-	(677)

Net income	-	-	-	-	-	-	6,138	-	6,138
Unrealized gain on available-for-sale securities	-	-	-	-	-	-	-	340	340
BALANCE, DECEMBER 31, 2000	-	$ -	18,818	$19	$146,461	$(2,894)	$15,987	$274	$159,847

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

PCTEL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2000	1999	1998
Cash Flows from Operating Activities:			
Net income	$ 6,138	$ 5,422	$ 495
Adjustments to reconcile net income to net cash			
Provided by (used in) operating activities:			
Acquired in-process research and development	1,600	-	6,130
Depreciation and amortization	6,441	2,835	303
Amortization of deferred debt charge	-	1,550	-
Provision for allowance for doubtful accounts	3,677	1,674	465
Provision for excess and obsolete inventories	918	1,121	330
(Increase) decrease in deferred tax asset	165	(1,371)	(1,525)
Amortization of deferred compensation	1,308	790	43
Grant of stock options to non-employee	-	88	-
Changes in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(20,627)	4,702	(7,771)
Increase in inventories	(8,924)	(4,789)	(1,352)
(Increase) decrease in prepaid expenses and other assets	(1,872)	(2,300)	598
Increase in accounts payable	1,952	1,985	3,578
Increase (decrease) in accrued royalties	3,788	2,724	(1,361)
Increase in income taxes payable	127	2,083	1,207
Increase in accrued liabilities	94	5,027	1,579
Net cash provided by (used in) operating activities	(5,215)	21,541	2,719
Cash Flows from Investing Activities:			
Capital expenditures for property and equipment	(3,044)	(2,729)	(512)
Purchase of available-for-sale investments	(109,611)	(53,651)	-
Proceeds from sales and maturities of available-for-sale investments	70,553	-	-
Purchase of businesses, net of cash acquired	(5,134)	-	(16,832)
Net cash used in investing activities	(47,236)	(56,380)	(17,344)
Cash Flows from Financing Activities:			
Principal payments on capital lease obligations	-	(36)	(28)
Proceeds from notes payable	-	-	16,313
Principal payments on notes payable	-	(16,313)	-
Proceeds from issuance of preferred stock	-	-	5,002
Costs incurred related to issuance of preferred stock	-	-	(44)
Proceeds from issuance of common stock	34,157	84,045	34
Costs incurred related to initial public offering	(337)	(1,140)	(349)
Costs incurred related to secondary public offering	(677)	-	-
Net cash provided by financing activities	33,143	66,556	20,928
Net increase (decrease) in cash and cash equivalents	(19,308)	31,717	6,303
Cash and cash equivalents, beginning of year	44,705	12,988	6,685
Cash and cash equivalents, end of year	$ 25,397	$ 44,705	$ 12,988
Supplemental Cash Flow Information:			
Cash paid for interest	$ -	$ 1,449	$ 25
Cash paid for income taxes	$ 2,047	$ 2,163	$ 462
Issuance of warrants for preferred and common stock	$ -	$ -	$ 1,400
Increases (decreases) to deferred compensation	$ (654)	$ 5,432	$ 257
Acquisition of businesses for stock	$ 14,640	$ -	$ -

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

PCTEL, Inc.

Notes to the Consolidated Financial Statements
For the Year Ended: December 31, 2000

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Company

We were originally incorporated in California in February 1994. In July 1998, we reincorporated in Delaware and this reincorporation has been reflected retroactively in the accompanying consolidated financial statements.

We are a leading provider of software-based high speed connectivity solutions to individuals and businesses worldwide. We design, develop, produce and market advanced software-based high performance, low cost modems that are flexible and upgradable, with functionality that can include data/fax transmission at various speeds, and telephony features. Our soft modem products consist of a hardware chipset containing a proprietary host signal processing software architecture which allows for the utilization of the computational and processing resources of a host central processor, effectively replacing special-purpose hardware required in conventional hardware-based modems. Together, the combination of the chipset and software drivers are a component part within a computer which allows for telecommunications connectivity. By replacing hardware with a software solution, our host signal processing technology lowers costs while enhancing capabilities.

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

We use the United States dollar for our financial statements, even for our subsidiaries in foreign countries. All gains and losses resulting from transactions originally in foreign currencies and then translated into US dollars are included in net income. As of December 31, 2000, we had subsidiaries in the Cayman Islands, Japan and Taiwan. These consolidated financial statements include the accounts of PCTEL and our subsidiaries after eliminating intercompany accounts and transactions.

Cash Equivalents and Short-Term Investments

We divide our financial instruments into two different classifications.

Cash equivalents:	are debt instruments that mature within three months after we purchase them.
Short-term investments:	are marketable debt instruments that generally mature between three months and two years from the date we purchase them. All of our short-term investments are classified as current assets and available-for-sale because they are marketable and we have the option to sell them before they mature. As of December 31, 2000, short-term investments consisted of high-grade corporate securities with maturity dates of approximately five months to two years. These investments are recorded at market price and any unrealized holding gains and losses (based on the difference between market price and book value) are reflected as other comprehensive income/loss in the stockholders' equity section of the balance sheet. We have accumulated a $274,000 unrealized holding gain as of December 31, 2000. Realized gains and losses

and declines in value of securities judged to be other than temporary are included in interest income and have not been significant to date. Interest and dividends of all securities are included in interest income.

Concentrations of Credit Risk

We have potential credit risk primarily in two areas, our short-term investments and trade receivables.

Our investment policy is to preserve the value of our capital and generate interest income from these investments without undue exposure to risk. Market risk is the potential loss due to the change in value of a financial instrument due to interest rates or equity prices. We try to moderate this risk in two ways. First, our investment portfolio is divided between Banc of America Securities and Salomon Smith Barney. By using two independent investment banking firms, we believe it has improved market visibility. Secondly, we independently review market pricing on a periodic basis based upon directly managing a limited amount of funds we use for operations which are not managed by our funds' managers.

For trade receivables, credit risk is the potential for a loss due to a customer not meeting its payment obligations. We have established an allowance for amounts which we may not be able to collect based on industry standards and actual payment history. We moderate this risk by establishing and reviewing credit limits, monitoring those limits and making updates as required. See Note 9 for industry segment, customer and geographic information.

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs. Inventories as of December 31, 2000 and 1999 were composed of finished goods only. Based on our current estimated requirements, it was determined that there was excess inventory and those excess amounts were fully reserved as of December 31, 2000 and 1999. Due to competitive pressures and technological innovation, it is possible that 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. Leasehold improvements are amortized over the corresponding lease term.

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

	December 31,	
	2000	1999
Computer and office equipment	$ 6,753	$ 3,862
Furniture and fixtures	541	391
Leasehold improvements	251	9
Other	78	-
Total property and equipment	7,623	4,262
Less: Accumulated depreciation and amortization	(2,901)	(1,163)
Property and equipment, net	$ 4,722	$ 3,099

Software Development Costs

We account 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." Our products include a software component. To date, we have expensed all software development costs because these costs were incurred prior to the products reaching 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. We provide for estimated sales return and price rebate allowances related to sales to OEMs at the time of shipment. As of December 31, 2000 and 1999, $6.8 million and $3.0 million of returns and price rebate allowances were netted against accounts receivable in the accompanying consolidated balance sheets. Revenues from sales to distributors are made under agreements allowing price protection and rights of return on unsold products. We record revenue relating to sales to distributors only when the distributors have sold the product to end-users. Customer payment terms generally range from letters of credit collectible upon shipment to open accounts payable 60 days after shipment.

We also generate 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 us is received from licensees. Furthermore, revenues from technology licenses are recognized after delivery has occurred and the amount is fixed and determinable, generally based upon the contract's nonrefundable payment terms. To the extent there are extended payment terms on these contracts, revenue is recognized as the payments become due and the cancellation privilege lapses. To date, we have not offered post-contract customer support.

Stock-Based Compensation

We account for stock-based awards to employees in accordance with APB No. 25, "Accounting for Stock Issued to Employees". We have adopted the disclosure-only alternative of SFAS No. 123, "Accounting for Stock-Based Compensation". Under APB No. 25, if the exercise price of our employee stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. However, if the stock option price is less than fair market value a stock based compensation charge is required. We recorded a deferred compensation charge for options granted below fair market value before our Initial Public Offering ("IPO") and have also included the pro forma disclosures required under SFAS No. 123 in Note 6.

Earnings Per Share

We compute 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 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 by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding. 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.

Based on SEC Staff Accounting Bulletin No. 98, preferred and common stock issued or granted for below fair market value (nominal consideration) prior to the IPO must be included in the earnings per share calculation as if they had been outstanding the entire period. We have never issued or granted this type of stock.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the years ended December 31, 2000, 1999, and 1998, respectively (in thousands, except per share data):

	Year Ended December 31,		
	2000	1999	1998
Net income	$ 6,138	$ 5,422	$ 495
Basic earnings per share:			
Weighted average common shares outstanding	18,011	5,287	2,355
Basic earnings per share	$ 0.34	$ 1.03	$ 0.21
Diluted earnings per share:			
Weighted average common shares outstanding	18,011	5,287	2,355
Weighted average common stock option grants and outstanding warrants	2,503	2,603	1,518
Weighted average preferred stock outstanding	--	6,776	8,452

Weighted average common shares and common stock equivalents outstanding	20,514	14,666	12,325
Diluted earnings per share	$ 0.30	$ 0.37	$ 0.04

Accounting for Impairment of Long-Lived Assets

Goodwill is being amortized on a straight-line basis over five years. We assess the need to record impairment losses on long-lived assets used in operations when indicators of impairment are present. On an on-going basis, we review 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. We then determine 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, we have not needed to record any impairment losses on long-lived assets.

Comprehensive Income

Effective January 1, 1998, we adopted SFAS No. 130 "Reporting Comprehensive Income." Comprehensive income is to include amounts that have been previously excluded from net income and reflected instead in stockholders' equity. For the year ended December 31, 2000, comprehensive income was $6.5 million, which includes an unrealized holding gain of $340,000 related to available-for-sale investments. For the year ended December 31, 1999, comprehensive income was $5.4 million, which includes an unrealized holding loss of $66,000 related to available-for-sale investments. For the year ended December 31, 1998, comprehensive income was the same as reported net income.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," which requires certain accounting and reporting standards for derivative financial instruments and hedging activities. It applies 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, as amended, will have a material effect on our financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition". In June 2000, the SEC deferred the adoption date for SAB 101 until our fourth quarter ended December 31, 2000. SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. We adopted SAB 101 in October 2000 and this adoption did not have a material effect on our financial position or results of operations.

In March 2000, the FASB issued Financial Standards Board Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25." FIN 44 addresses the application of APB 25 to clarify, among other issues, (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998 or January 12, 2000. To the extent FIN 44 covers events occurring during the period after December 15, 1998 or January 12, 2000, but before the effective date of July 1, 2000, the effects of applying the interpretation will be recognized on a prospective basis from July 1, 2000. We adopted FIN 44 in July 2000 and this adoption did not have a material effect on our financial position or results of operations.

Risks and Uncertainties

For the years ended December 31, 2000, 1999 and 1998, we purchased integrated circuits from a limited number of vendors. If these vendors are unable to provide integrated circuits in a timely manner and we are unable to find alternative vendors, our business, operating results and financial condition could be adversely affected.

The majority of our 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 our operating results.

Reclassifications

Certain amounts in prior years have been reclassified to conform with the current year presentation.

2. SHORT-TERM INVESTMENTS

We invest in high quality, short-term investments, which we classify as available-for-sale. There were no significant differences between amortized cost and estimated fair value at December 31, 2000 and 1999. The following table presents the estimated fair value breakdown of investment securities by major security type (in thousands):

	December 31,	
	2000	1999
Commercial paper	$17,997	$15,884
U.S. Government obligations	7,760	7,908
Corporate bonds	67,226	29,793
Total short-term investments	$92,983	$53,585

As of December 31, 2000, $47.9 million of the short-term investments have maturity dates of less than one year and $45.1 million have maturity dates of one to five years.

3. ACQUISITIONS

BlueCom Technology Corp.

On December 14, 2000, we completed the acquisition of BlueCom Technology Corp., ("BlueCom"), Taiwan's industry leader in the innovation, development and marketing of MMX Signal Processing (MSP) technology. Under the terms of the Agreement and Plan of Reorganization (the "Merger Agreement"), the former shareholders of BlueCom received 11,245 shares of our common stock and $1,557,770 of cash in exchange for all shares of BlueCom common stock.

The purchase price of BlueCom was allocated based upon the estimated fair value of the assets acquired and liabilities assumed, which approximated book value. The following table summarizes the components of the total purchase price and the allocation (in thousands, except share amounts).

Cash	$1,557
Fair value of 11,245 shares of our common stock	322
Acquisition costs	33
Estimated total purchase price	1,912
Less: Net assets acquired	(307)
Estimated acquired intangibles	$1,605

The acquisition was accounted for under the purchase method of accounting. Under this method, if the purchase price exceeds the net tangible assets acquired, the difference is recorded as excess purchase price. In this circumstance, the difference was $1.6 million which was attributed to goodwill ($949,000) and a covenant not to compete ($656,000). We have classified this balance of $1.6 million as goodwill and other intangible assets, net, in the accompanying consolidated balance sheets and are amortizing it over useful lives of two to five years. We have included the results of BlueCom from the date of acquisition to December 31, 2000 in the consolidated statements of operations.

Voyager Technologies, Inc.

On February 24, 2000, we completed the acquisition of Voyager Technologies, Inc., ("Voyager"), a provider of personal connectivity and Internet access technology. Under the terms of the Agreement and Plan of Reorganization (the "Merger Agreement"), the former shareholders of Voyager received 237,272 shares of our common stock and $2,065,331 of cash in exchange for all shares of Voyager common stock. In addition, 645,157 vested and unvested options to purchase shares of Voyager common stock were converted into 49,056 options to purchase our common stock at the exchange ratio of 0.07604. Included in the 237,272 shares are 82,419 restricted shares of common stock issued to a Voyager shareholder. These shares are not subject to forfeiture under any circumstances and, thus, were considered in the determination of the purchase price at the date of acquisition.

The purchase price of Voyager was allocated based upon the estimated fair value of the assets acquired and liabilities assumed, which approximated book value. The following table summarizes the components of the total purchase price and the allocation (in thousands, except share amounts).

Fair value of 237,272 shares of our common stock	$	11,814
Fair value of options for 49,056 shares of our common stock		2,504
Cash		2,065
Settlement of outstanding claim		1,500
Acquisition costs		687
Estimated total purchase price		18,570
Less: Net assets acquired		(762)
Estimated acquired intangibles	$	17,808

The acquisition was structured as a tax-free reorganization and was accounted for under the purchase method of accounting. Under this method, if the purchase price exceeds the net tangible assets acquired, the difference is recorded as excess purchase price. In this circumstance, the difference was $17.8 million. We attributed $1.6 million of the excess purchase price to in-process research and development, which we expensed immediately, and the balance of $16.2 million was attributed to intellectual property ($0.5 million), workforce ($0.3 million) and goodwill ($15.4 million). We have classified this balance of $16.2 million as goodwill and other intangible assets, net, in the accompanying consolidated balance sheets and are amortizing it over useful lives of five years. We have included the results of Voyager from the date of acquisition to December 31, 2000 in the consolidated statements of operations.

In addition to the 237,272 shares of our common stock issued to the shareholders of Voyager, 30,415 additional shares of common stock were held in an escrow account pending resolution of an outstanding claim. These shares had been treated as contingent consideration and were not initially recognized as purchase price due to the uncertainty of how the claim would be resolved. In May 2000, the outstanding claim was settled for $1.5 million which resulted in the return of the stock held in escrow to us. No amount was initially recorded for the now-unissued stock while in escrow, however, the $1.5 million outstanding claim settlement was recognized as additional purchase price in the quarter ended June 30, 2000.

As part of the acquisition, we granted 49,056 vested and unvested options to purchase our common stock upon conversion of the outstanding Voyager options, based on the exchange ratio of 0.07604. The fair value of these options was determined using the Black-Scholes option pricing model and the following assumptions: risk-free interest rate of 5.50%; dividend yields of zero; an estimated volatility factor of the market price of our common stock of 75%; and an expected life between three to six months after vest date. The weighted-average estimated fair value of these options was $51.05 per share.

Upon completion of the Voyager acquisition, we immediately expensed $1.6 million representing purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. The $1.6 million expensed as in-process research and development was approximately 9% of the purchase price and was attributed and supported by a discounted cash flow analysis that identified revenue and costs on a project by project basis. 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 following in-process projects existed at Voyager as of the acquisition date: Bluetooth, HomeRF, Direct Sequence Cordless, Bluetooth/HomeRF Combo, Bluetooth/HomeRF/Direct Sequence, Wireless Gas Tank Sensor, Wireless GPS and Wireless Industrial Garage Door Opener projects.

The value of in-process research and development 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 risk-adjusted discount rate applied to the projects' cash flows was 15% for existing technology and 20% for the in-process technology. Based upon assessment of each in-process project's development stage, including relative difficulty of remaining development milestones, it was determined that application of a 20% discount rate was appropriate for all acquired in-process projects. The valuation includes cash inflows from in-process technology through 2005 with revenues commencing in 2000 and increasing significantly in 2001 before declining in 2005. The projected total revenue of Voyager was broken down to revenue attributable to the in-process technologies, existing technologies, core technology and future technology. The revenue attributable to core technology was determined based on the extent to which the in-process technologies rely on the already developed intellectual property. The Bluetooth and HomeRF projects were approximately 25% 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 2000. The Direct Sequence Cordless project was approximately 65% complete at the time of the valuation and the expected time frame for achieving this product release was assumed to be in the second half of 2000. The Bluetooth/HomeRF Combo and Bluetooth/HomeRF/Direct Sequence projects were approximately 10% 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 2000 and the first half of 2000, respectively. The Wireless Gas Tank Sensor and the Wireless Industrial Garage Door Opener projects were approximately 70% complete at the time of the valuation and the expected time frame for achieving these product releases was assumed to be 2001. The Wireless GPS was approximately 50% complete at the time of the valuation and the expected time frame for achieving this product release was assumed to be in the second half of 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 were to be completed in the next 6 to 18 months in order for Voyager's projects to become implemented in a commercially viable timeframe. Management's cash flow and other assumptions utilized at the time of acquisition do not materially differ from historical pricing/licensing, margin, and expense levels of the Voyager group prior to acquisition.

Approximately $0.5 million was attributed to core wireless technology and royalty revenue associated with the Wireless Water Meter Reading Device project.

If these projects are not successfully developed, our 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, 2000 and 1999 is presented below (in thousands except per share information) as if Voyager and BlueCom had been acquired on January 1. The pro forma information does not purport to be indicative of what would have occurred had the acquisitions been made as of those dates or of results that may occur in the future. Pro forma net income excludes the write-off of acquired in-process research and development of $1.6 million.

	Year Ended December 31,	
	2000	1999
Revenues	$ 97,785	$ 77,792
Net income	$ 7,668	$ 5,616
Diluted net income per share	$ 0.37	$ 0.38

4. PREFERRED STOCK

Following the closing of our IPO in October 1999, 4,635,548 shares of Series A convertible preferred stock, 3,250,000 shares of Series B convertible preferred stock and 625,200 shares of Series C convertible preferred stock were automatically converted into 8,510,748 shares of common stock. We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series, each with a par value of $0.001 per share. As of December 31, 2000 and 1999, no shares of preferred stock were outstanding.

5. INCOME TAXES

We utilize the liability method of accounting for income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes". Under this method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

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

	Year Ended December 31,		
	2000	1999	1998
Domestic	$1,320	$ 2,151	$(1,390)
Foreign	7,184	7,896	2,097
	$8,504	$10,047	$ 707

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

	Year Ended December 31,		
	2000	1999	1998
Current:			
Federal	$2,125	$ 4,039	$ 1,188
State	291	346	482
Other	29	--	67
	2,445	4,385	1,737
Deferred (Benefit):			
Federal	(69)	(1,213)	(942)
State	(10)	(158)	(583)
	(79)	(1,371)	(1,525)
	$2,366	$ 3,014	$ 212

A reconciliation of the provision for income taxes at the Federal statutory rate compared to our effective tax rate is as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Provision at Federal statutory rate	$2,976	$3,516	$ 247
State income tax, net of Federal benefit	492	127	25
Foreign taxes in excess of statutory rate	29	--	67
R&D credit	(661)	(651)	(310)
Other	(470)	22	183
	$2,366	$3,014	$ 212

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our net deferred tax asset consists of the following (in thousands):

	Year Ended December 31,	
	2000	1999
Accrued royalties	$ 997	$ 990
Inventory reserve	208	206
Other cumulative temporary differences	2,026	1,964
Deferred amortization of purchased assets	2,424	2,416
	$5,655	$5,576

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, we believe it is more likely than not that all of 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 are reduced.

6. COMMON STOCK

Initial Public Offering

On October 19, 1999, we completed its IPO of common stock. A total of 5,290,000 shares were sold at a price of $17.00 per share (including the exercise of the underwriters' over-allotment option of 690,000 shares). We received net proceeds of approximately $82.5 million. Upon closing of the offering, all outstanding shares of convertible preferred stock were automatically converted into 8,510,748 shares of common stock.

Secondary Public Offering

On April 11, 2000, we effected its secondary public offering of common stock. A total of 2,750,000 shares were sold at a price of $46.50 per share; 650,000 shares were sold by us and 2,100,000 shares were sold by our selling stockholders. The offering resulted in net proceeds to us and the selling stockholders of approximately $28.0 million and $92.8 million, respectively, net of an underwriting discount of $6.4 million and offering expenses of $0.7 million.

Common Stock Reserved for Future Issuance

As of December 31, 2000, we had reserved shares of common stock for future issuance as follows:

Stock options under 1995 and 1997 Stock Option Plans	5,440,815
Director Option Plan	177,500
Employee Stock Purchase Plan	1,094,665
Total shares reserved	6,712,980

Stock Option Plans

1995 Stock Option Plan and 1997 Stock Option Plan ("1995 Plan" and "1997 Plan")

Under the 1995 Plan and 1997 Plan, the Board of Directors may grant to employees and consultants options and/or purchase rights to purchase our common stock at terms and prices determined by the Board of Directors.

In August 1999, the Board of Directors and our stockholders approved an amendment and restatement of the 1997 Plan and approved an additional increase in the number of authorized shares we can issue under the 1997 Plan to 5,500,000 shares of common stock. We will further increase annually the number of authorized shares we can issue under the 1997 Plan by an amount equal to the lesser of (i) 700,000 shares, (ii) 4% of the outstanding shares on such date or (iii) a lesser amount determined by the Board of Directors. The exercise price and vesting of all grants are to be determined by the Board of Directors. The exercise price of incentive stock options cannot be less than the fair market value of the common stock on the grant date. Options granted under the 1997 Plan expire 10 years from the date of grant. 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 our 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. The 1997 Plan will terminate in 2007.

The number of authorized shares available for issuance under the 1995 Plan was 3,200,000. As of December 31, 2000, of the total 3,200,000 shares authorized for issuance, we have remaining 156,032 shares that we can grant under the 1995 Plan. The number of authorized shares available for issuance under the 1997 Plan was 6,162,413. As of December 31, 2000, of the total 6,162,413 shares authorized for issuance, we have remaining 279,687 shares that we can grant under the 1997 Plan. We have reserved 5,440,815 shares of common stock for future issuance under the 1995 and 1997 plans. 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, 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
Canceled	173,585	(173,585)	$ 2.52
Balance, December 31, 1998	1,202,445	3,085,308	$ 4.43
Authorized	2,000,000	--	
Granted	(1,818,492)	1,818,492	$12.11
Exercised	--	(345,986)	$ 1.15
Canceled	112,292	(112,292)	$ 7.72
Balance, December 31, 1999	1,496,245	4,445,522	$ 7.74
Authorized	662,413	--	
Granted	(2,494,196)	2,494,196	$32.70
Exercised	--	(1,163,365)	$ 3.94
Canceled	771,257	(771,257)	$21.66
Balance, December 31, 2000	435,719	5,005,096	$18.92

1998 Director Option Plan ("Directors Plan")

Our Directors Plan became effective following our IPO in October 1999. We have reserved a total of 200,000 shares of common stock that we can issue under our Directors Plan. Under our 1998 Directors Plan, any new non-employee director elected to the Board of Directors automatically receives a grant of 15,000 shares of common stock. 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. The exercise price of all options is 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. All of the options granted under our 1998 Directors Plan have a term of 10 years. As of December 31, 2000, of the total 200,000 shares authorized for issuance, we have remaining 177,500 shares that we can grant under the Directors Plan.

The following table summarizes information about stock options outstanding under the 1995 Plan, 1997 Plan and Directors Plan at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable December 31, 2000	Weighted-Average Exercise Price
$0.02 - $3.00	547,599	5.86	$ 1.02	509,371	$ 0.94
$3.50 - $7.45	605,762	7.20	$ 7.15	365,037	$ 7.29
$8.75 - $10.06	574,610	7.81	$ 9.34	232,994	$ 9.29
$10.25 - $10.25	910,151	8.48	$10.25	334,788	$10.25
$10.56 - $26.75	829,934	9.30	$20.84	92,156	$16.00
$27.56 - $33.63	767,340	9.44	$31.87	--	$ --
$35.88 - $59.00	792,200	9.19	$43.80	15,371	$44.60
	5,027,596		$19.10	1,549,717	

Employee Stock Purchase Plan ("Purchase Plan")

In May 1998, we reserved a total of 800,000 shares of common stock for future issuance under our 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. Our Purchase Plan will enable eligible employees to purchase common stock at the lower of 85% of the fair market value of our common stock on the first or last day of each offering period. Each offering period is six months except for the first offering period which began on October 19, 1999 following the initial public offering and ended on February 14, 2000. The Purchase Plan will terminate in 2008. As of December 31, 2000, the number of authorized shares available for issuance under the Purchase Plan was 1,131,207 and we have remaining 1,094,665 shares that we can issue under the Purchase Plan.

Deferred Compensation

In connection with the grant of stock options to employees prior to our initial public offering in 1999, we recorded deferred compensation of $5.4 million representing the difference between the exercise price and deemed fair value of our common stock on the date these stock options were granted. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable options. 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.

For the year ended December 31, 2000 and 1999, amortization of deferred compensation (in thousands) relates to the following functional categories:

	Year Ended December 31,	
	2000	1999
Research and development	$ 285	$ 222
Sales and marketing	302	234
General and administrative	721	334
	$1,308	$ 790

Rescission of Stock Option Exercise

In December 2000, an employee and us mutually agreed to rescind an option exercise to purchase 30,000 shares of common stock which occurred in January 2000. There was no effect on our financial position or results of operations for the year ended December 31, 2000 as a result of this rescission.

Valuation of Stock Options

Under SFAS No. 123, we are required to present pro forma information regarding net income and net income per share as if we had accounted for our stock options under the fair value method. 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 2000, 1999 and 1998: risk-free interest rates in the range of 4.7% to 6.5%; dividend yields of zero; an estimated volatility factor of the market price of our common stock in the range of 55% to 75%; and an expected life between three to six months after vest date. The weighted-average estimated fair value of options granted during fiscal 2000, 1999 and 1998 was $16.96, $6.88 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 our 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 our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting periods. Our pro forma net income (loss) would have been approximately $(10.2) mil1ion, $1.6 million and $(984,000) for fiscal years 2000, 1999 and 1998, respectively. Pro forma diluted net income (loss) per share would have been $(0.56), $0.11 and $(0.42) for fiscal years 2000, 1999 and 1998, respectively.

Warrants

In February 1998, in connection with the issuance of Series C preferred stock, we issued warrants to purchase 2,417 shares of common stock at $8.00 per share. In 1999, a portion of these warrants were exercised to purchase 1,354 shares of common stock. The remaining warrants were exercised in 2000. In December 1998, in connection with the notes payable arrangement to acquire Communications Systems Division ("CSD"), a division of General DataComm, Inc., we issued a warrant to purchase 200,000 shares of Series C preferred stock at $8.00 per share which was converted to a warrant to purchase common stock at the time of the IPO. This warrant was exercised in 2000 through a net exercise settlement.

7. LEASE ARRANGMENTS:

We entered into an operating lease for our facilities in Milpitas, California in September 1999. The lease expires in February 2003. Additionally, we have facilities in Waterbury, Connecticut, Japan, Taiwan and Korea.

We have non-cancelable operating leases for office facilities through 2003 and operating leases for equipment through 2004. Our future minimum rental commitments under these leases at December 31, 2000, are as follows (in thousands):

2001	$1,263
2002	1,196
2003	300
2004	42
2005	2
Future minimum lease payments	$2,803

Our rent expense under operating leases for the years ended December 31, 2000, 1999 and 1998 was approximately $1,422,000, $985,000, and $364,000, respectively.

8. CONTINGENCIES:

We record an accrual for estimated future royalty payments for relevant technology of others used in our product offerings in accordance with SFAS No. 5, "Accounting for Contingencies." The estimated royalties accrual reflects management's broader litigation and cost containment strategies, which may include alternatives such as entering into cross-licensing agreements, cash settlements and/or ongoing royalties based upon our judgment that such negotiated settlements would allow management to focus more time and financial resources on the ongoing business. We have accrued our estimate of the amount of royalties payable for royalty agreements already signed, agreements that are in negotiation and unasserted but probable claims of others using advice from third party technology advisors and historical settlements. Should the final license agreements result in royalty rates significantly different than our current estimates, our business, operating results and financial condition could be materially and adversely affected.

As of December 31, 2000 and 1999, we had accrued royalties of approximately $11.7 million and $7.9 million, respectively. Of these amounts, approximately $1.2 million and $700,000 represent amounts accrued based upon signed royalty agreements as of December 31, 2000 and 1999, respectively. The remainder of accrued royalties represents management's estimate within a range of possible settlement losses as of each date presented. While management is unable to estimate the maximum amount of the range of possible settlement losses, it is possible that actual losses could exceed the amounts accrued as of each date presented.

During 1998, Motorola, Inc. ("Motorola") filed an action for patent infringement against us (and one other defendant) related to seven Motorola patents. In its complaint, Motorola was seeking damages for our alleged infringement, including treble damages for our alleged willful infringement and an injunction against us. Motorola was also seeking attorney's fees and costs.

We 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, we asserted counterclaims and declaratory relief for invalidity and/or unenforceability and noninfringements of each of the seven asserted Motorola patents. By our counterclaims, we were seeking 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. We were also seeking our costs and attorney's fees in this action. In September 1999, we reached a settlement with Motorola as to all claims raised by both parties. The settlement requires us to make royalty payments to Motorola based on unit volume. As part of the settlement, we granted a cross-license to Motorola to utilize portions of our technology and Motorola granted us a cross-license to utilize portions of their technology. This settlement did not have a material effect on our financial position or operating results.

On April 9, 1999, ESS Technology Inc. ("ESS") 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 International Telecommunications Union-related patents to ESS on fair, reasonable and non-discriminatory terms. ESS's complaint includes claims based on antitrust law, patent misuse, breach of contract and unfair competition. In its complaint, ESS also seeks a declaration that some of our International Telecommunications Union-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.

We filed an answer to ESS's complaint by moving to dismiss on the basis that ESS had not alleged facts sufficient to state a legal claim. ESS responded by amending its complaint to include additional factual and legal allegations and filing an opposition to the motion to dismiss. On August 2, 1999, the Court denied our motion to dismiss as moot in view of ESS's amended complaint.

On August 12, 1999, we filed a motion to dismiss ESS's amended complaint. On November 4, 1999, the United States District Court in San Jose, California, granted a dismissal of the antitrust and state unfair competition claims, ruling that ESS had failed to allege injury to competition in the market for modems. The Court allowed the specific performance of contract claim to stand, ruling that the license terms granted to other market participants would provide a sufficient basis for defining contractual terms that could be applied to ESS. The Court also denied the motion with respect to dismissal of the declaratory relief claims, holding that they were sufficiently ripe for adjudication. The Court granted ESS leave to again amend its complaint, which it did on November 24, 1999, by filing a second amended complaint.

On January 14, 2000, we filed a motion to dismiss the second amended complaint. ESS filed its opposition to the motion on January 21, 2000 and we filed our reply on January 28, 2000. On February 11, 2000, the Court heard oral argument on our motion to dismiss the second amended complaint. On February 14, 2000, the Court dismissed ESS's complaint and gave ESS twenty days to amend its complaint. In particular, the Court stated that ESS must allege the relevant geographic market and product market in the complaint. In response to the Court's February 14, 2000 order, ESS filed its third amended complaint on March 6, 2000.

On March 15, 2000, we filed a motion to dismiss ESS's third amended complaint. ESS responded on March 31, 2000 and we filed reply papers on April 6, 2000. A case management conference was held on April 21, 2000. The motion was denied on July 3, 2000. The judge ordered that discovery proceed only on the issue of whether we license our patents on a reasonable and non-discriminatory basis. This initial discovery period is currently scheduled to end on August 10, 2001. During this period of time, the parties will disclose experts and exchange expert reports on the above issue. A further case management conference is scheduled to be held on August 24, 2001.

On August 7, 2000, we filed counterclaims alleging that ESS infringes our five patents that are the subject of ESS's complaint. In addition, on October 3, 2000, the parties stipulated to permit us to amend our counterclaims to include claims that ESS infringes three of our additional patents. Six of our eight patents asserted against ESS are International Telecommunications Union-related patents. These infringement claims will be litigated, if necessary, only after the issue of whether we license our patents on a reasonable and non-discriminatory basis is resolved. The other two patents asserted against ESS are not related to International Telecommunications Union standards.

Due to the nature of litigation generally, 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 International Telecommunications Union-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 position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this claim.

We are vigorously contesting, and intend to continue to vigorously contest, all of ESS's claims. We are vigorously litigating, and intend to continue to vigorously litigate our claims against ESS.

On August 9, 2000, we filed a complaint for patent infringement in the United States District Court, District of Delaware against Smart Link Ltd. and Smart Link Technologies, Inc. (collectively, "Smart Link"). Our complaint alleges that Smart Link infringed four of our patents. On August 18, 2000, we amended our complaint to claim that Smart Link's infringement was willful.

On September 18, 2000, Smart Link answered our amended complaint and counterclaimed against us. Smart Link's answer denied our allegations of infringement. Smart Link's counterclaims seek declaratory relief that our asserted patents are invalid and not infringed. Smart Link also counterclaims for tortious interference with a business relation. On October 10, 2000, we replied to Smart Link's counterclaims and moved to strike portions of Smart Link's answer, which resulted in Smart Link agreeing to withdraw the offending portions of the answer. On January 12, 2001, the parties exchanged initial disclosures and discovery is underway. On March 5, 2001, we filed a motion in this case to amend our complaint to withdraw one patent already asserted against Smart Link and assert a new patent against Smart Link. If our motion is granted, the number of patents asserted against Smart Link will remain at four patents. Smart Link's response to this motion was due on March 19, 2001. The judge has scheduled this case for trial beginning on January 22, 2002.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this lawsuit. We are vigorously litigating, and intend to continue to vigorously litigate, our claims against Smart Link.

On August 25, 2000, Smart Link Ltd. filed a complaint against us in the United States District Court, District of Massachusetts, alleging that we infringe two of Smart Link Ltd.'s patents.

On October 11, 2000, we answered Smart Link Ltd.'s complaint and counterclaimed against Smart Link Ltd. and Smart Link Technologies, Inc. Our answer denies Smart Link Ltd.'s allegations of infringement. Our counterclaims seek declaratory relief that the asserted Smart Link patents are invalid and not infringed. Our counterclaim also alleges that Smart Link infringes one of our patents.

The parties are to exchange initial disclosures and a case management conference was held on March 23, 2001.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this 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 this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this claim. We are vigorously contesting, and intend to continue to vigorously contest, all of Smart Link's claims.

On September 15, 2000, we filed a complaint Under Section 337 of the Tariff Act of 1930, as Amended with the United States International Trade Commission ("ITC"). Our complaint requested that the ITC commence an investigation into whether Smart Link and ESS are engaged in unfair trade practices by selling for importation into the United States, directly or indirectly importing into the United States, or selling in the United States after importation devices which infringe our patents. Four of our patents were asserted against Smart Link and two of those four patents were asserted against ESS. A supplemental complaint was filed on October 3, 2000. On February 5, 2001, we filed a motion to reduce the number of patents asserted against Smart Link from four patents to three patents. This motion was granted February 16, 2001.

On October 11, 2000, the ITC voted to institute an investigation into our complaint. On October 18, 2000, notice of the ITC investigation was published in the Federal Register. Smart Link and ESS filed their responses to our complaint and the notice of investigation on November 13, 2000 and October 31, 2000, respectively. Discovery is currently underway. By order of the administrative law judge, the ITC investigation is to be completed by

December 18, 2001.

Due to the nature of litigation generally, we cannot ascertain the outcome of the final resolution of this lawsuit. This litigation could be time consuming and costly, and we will not necessarily prevail given the inherent uncertainties of litigation. We believe that it is unlikely this litigation will have a material adverse effect on our financial position or results of operations and, accordingly, have not accrued any amounts in the financial statements related to this lawsuit. We are vigorously litigating, and intend to continue to vigorously litigate, our claims against Smart Link and ESS.

We are subject to various claims which arise in the normal course of business. In the opinion of management, the ultimate disposition of these claims will not have a material adverse effect on our financial position, liquidity or results of operations.

9. INDUSTRY SEGMENT, CUSTOMER AND GEOGRAPHIC INFORMATION:

We are organized based upon the nature of the products we offer. Under this organizational structure, we operate in one segment, that segment being software-based modems using host signal processing technology. We market our products worldwide through our sales personnel, independent sales representatives and distributors.

Our sales to customers outside of the United States, as a percent of total revenues, are as follows:

	Year Ended December 31,		
	2000	1999	1998
Taiwan	53 %	35 %	48 %
China (Hong Kong)	34 %	47 %	- %
Singapore	1 %	1 %	- %
Rest of Asia	3 %	16 %	28 %
Other	1	-	1 %
	92 %	99 %	77 %

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

	Year Ended December 31,		
Customer	2000	1999	1998
A	15 %	13 %	12 %
B	8 %	7 %	15 %
C	- %	3 %	12 %
D	13 %	1 %	- %
E	32 %	47 %	3 %
F, related party	- %	1 %	13 %
	68 %	72 %	55 %

Our customers are concentrated in the personal computer industry and modem board manufacturer industry segment and in certain geographic locations. We actively market and sell products in Asia. We perform ongoing evaluations of our customers' financial condition and generally require no collateral. As of December 31, 2000, approximately 64% of gross accounts receivable were concentrated with four customers. As of December 31, 1999, approximately 60% of gross accounts receivable were concentrated with three customers.

As of December 31, 2000, our long-lived assets were primarily located in the United States. Our long-lived assets, comprising primarily intangible assets, by geographic region as of December 31, 2000 and 1999 are as follows:

	Year Ended December 31,	
	2000	1999
United States	$21,258	$5,251
Cayman Islands	$ 5,138	$6,731
Other	$ 206	$ 39

10. RELATED PARTIES

The President of a significant customer of ours was a member of our Board of Directors from inception to November 1, 1997. For the years ended December 31, 2000, 1999 and 1998, revenues generated from sales to this related party customer were approximately $0.1 million, $0.8 million and $5.0 million, respectively. Sales to this related party were generally made on the same terms and conditions as sales to unrelated customers.

Included in prepaid expenses and other assets as of December 31, 2000 and 1999 are amounts due from management. These promissory notes are due within a year and bear interest at 8.0% per annum. The balance receivable as of December 31, 2000 and 1999 is $90,995 and $141,273, respectively.

11. 401(k) PLAN

Our 401(k) plan covers all of our employees beginning the first of the month following the month of their employment. Under this plan, employees may elect to contribute up to 15% of their current compensation to the 401(k) plan up to the statutorily prescribed annual limit. We may make discretionary contributions to the 401(k). We made $224,969 in employer contributions to the 401(k) plan for the year ended December 31, 2000. We did not make any employer contributions to the 401(k) plan for the year ended December 31, 1999.

12. SUBSEQUENT EVENT

On February 8, 2001, we announced a series of actions to streamline support for our legacy voiceband business and sharpen our focus on broadband, embedded and wireless sectors. These measures were part of a restructuring program to return the company to profitability and operational effectiveness and included an 11 percent reduction in staff worldwide, a hiring freeze and cost containment programs.

13. QUARTERLY DATA (Unaudited)

	Quarter Ended,			
	Mar. 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000
	(in thousands, except per share data)			
Revenues	$24,121	$27,523	$28,885	$16,654
Gross profit	11,353	12,927	13,571	5,392
Income (loss) from operations	1,002	2,073	2,689	(4,548)
Income (loss) before provision for income taxes	2,383	3,850	4,697	(2,426)
Net income (loss)	1,728	2,791	3,378	(1,759)
Basic earnings (loss) per share	$ 0.10	$ 0.16	$ 0.18	$ (0.09)
Shares used in computing basic earnings (loss) per share	16,805	17,989	18,441	18,755
Diluted earnings (loss) per share	$ 0.09	$ 0.14	$ 0.16	$ (0.09)
Shares used in computing diluted earnings (loss) per share	20,288	20,588	20,561	18,755

	Quarter Ended,			
	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
	(in thousands, except per share data)			
Revenues	$15,156	$17,890	$20,190	$23,057
Gross profit	7,230	8,819	9,750	11,066
Income from operations	2,058	2,396	2,551	2,771
Income before provision for income taxes	1,721	2,141	2,396	3,789
Net income before extraordinary loss	1,205	1,499	1,679	2,650
Net income	1,205	1,499	1,679	1,039
Basic earnings per share before extraordinary loss	$ 0.49	$ 0.61	$ 0.67	$ 0.20
Basic earnings per share after extraordinary loss	$ 0.49	$ 0.61	$ 0.67	$ 0.08
Shares used in computing basic earnings per share	2,448	2,475	2,512	13,545
Diluted earnings per share before extraordinary loss	$ 0.10	$ 0.12	$ 0.12	$ 0.14
Diluted earnings per share after extraordinary loss	$ 0.10	$ 0.12	$ 0.12	$ 0.15
Shares used in computing diluted earnings per share	12,604	12,685	13,438	18,903

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

None.

Part III

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Item 10: Directors and Executive Officers of the Registrant

The information required by this item concerning our directors is incorporated by reference to the sections captioned "Proposal One - Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in our Proxy Statement related to our 2001 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission wihtin 120 days of the end of our fiscal year pursuant to general instruction G(3) of Form 10-K (the "Proxy Statement"). Certain information required by this item concerning executive officers is set forth in Item I of this Report in the section captioned "Business - Executive Officers."

Item 11: Executive Compensation

The information required by this item is incorporated by reference to the sections captioned "Executive Compensation and Other Matters" and "Report of the Compensation Committee of the Board of Directors" contained in the Proxy Statement.

Item 12: Security Ownership of Certain Beneficial Owners and Management

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" contained in our Proxy Statement.

Item 13: Certain Relationships and Related Transactions

Information concerning certain relationships is incorporated by reference to the section entitled "Transactions with Related Parties and Insiders" contained in our Proxy Statement.

Part IV

Item 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

Refer to the financial statements filed as a part of this Report under "Item 8 - Financial Statements and Supplementary Data".

(2) Financial Statement Schedules

The following financial statement schedule is filed as a part of this Report under "Schedule II" immediately preceding the signature page: Schedule II - Valuation and Qualifying Accounts for the three fiscal years ended December 31, 2000. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

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

Exhibit Number		Description
1.1	(b)	Form of Underwriting Agreement
2.1	(d)	Agreement and Plan of Reorganization, dated February 23, 2000 by and among PCTEL, Inc., Voyager Technologies, Inc., VT Acquisition Corp. and certain shareholders of Voyager Technologies, Inc.
3.1	(b)	Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect
3.2	(b)	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	(b)	Amended and Restated Bylaws of the Registrant
4.1	(b)	Specimen common stock certificate
4.2	(b)	Warrant to purchase shares of Series C preferred stock of the Registrant issued to Pentech Financial Services, Inc.
4.3	(b)	Warrant to purchase shares of Series C preferred stock of the Registrant issued to PFF Bank and Trust, Inc.
4.4	(b)	Warrant to purchase shares of common stock of the Registrant issued to Edward Gibstein
4.5	(b)	Warrant to purchase shares of common stock of the Registrant issued to Irving Minnaker
4.6	(b)	Warrant to purchase shares of common stock of the Registrant issued to Mitchell Segal
4.7	(b)	Warrant to purchase shares of common stock of the Registrant issued to State Street Securities, Inc.
4.8	(b)	Amended and Restated Rights Agreement dated December 31, 1997
4.9	(b)	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	(b)	Addendum to the Amended and Restated Rights Agreement by and between the Registrant and Pentech

		Financial Services, Inc. dated February 1, 1999
4.11	(e)	Registration Rights Agreement, dated as of February 24, 2000, made by and among PCTEL and the shareholders of Voyager Technologies, Inc.
10.1	(b)	Form of Indemnification Agreement between PCTEL and each of its directors and officers
10.2	(b)	1995 Stock Option Plan and form of agreements thereunder
10.3	(b)	1997 Stock Plan, as amended and restated, August 3, 1999, and form of agreements thereunder
10.4	(b)	1998 Director Option Plan and form of agreements thereunder
10.5	(b)	1998 employee stock purchase plan and form of agreements thereunder
10.6	(b)	Employment offer letter between Derek S. Obata and the Registrant dated March 31, 1998
10.7	(b)	Employment offer letter between William F. Roach and the Registrant dated July 19, 1999
10.8	(b)	Sublease between KLA-Tencor Corporation and the Registrant dated September 24, 1998
10.9	(b)	Commercial Security Agreement by and between the Registrant and PPF Bank and Trust and related documents
10.10	(b)	Asset Purchase Agreement by and among PCTEL, Inc., PCTEL Global Technologies, Ltd. And General DataComm, Inc. dated as of December 22, 1998
10.11	(b)	Escrow Agreement by and between the Registrant and General DataComm, Inc. dated December 22, 1998
10.12	(b)	Bonus Pool Disbursement Agreement by and between the Registrant and General DataComm, Inc. dated December 22, 1998
10.13	(b)	Form of Acquisition Bonus Agreement by and between the Registrant and General DataComm, Inc. dated on December 22, 1998
10.14	(b)	Direct Sales Agreement by and between PCTEL Global Technologies, Ltd. and Kawasaki LSI U.S.A. dated December 4, 1998
10.15	(b)	Volume Purchase Agreement dated June 1, 1998 by and between Silicon Laboratories, Inc. and the Registrant
10.16	(c)	Lease agreement dated September 17, 1999 between PCTEL, Inc. and Sun Microsystems, Inc. for an office building located at 1331 California Circle, Milpitas, CA 95035
10.17	(a)	Form of Management Retention Agreement for PCTEL Inc.'s Chief Executive Officer
10.18	(a)	Form of Management Retention Agreement for PCTEL Inc.'s Vice Presidents
10.19	(a)	Severance Agreement and Release dated February 15, 2001 between PCTEL, Inc. and Peter Chen
21.1	(a)	List of Subsidiaries of the Registrant
23.1	(a)	Consent of Arthur Andersen LLP, Independent Public Accountants

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(a) Filed herewith.

(b) Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (Registration Statement No. 333-94707).

(c) Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

(d) Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Current Report on Form 8-K filed on March 10, 2000.

(e) Incorporated by reference to the exhibit bearing the same number filed with the Registrant's Registration Statement on Form S-1 (Registration Statement No. 333-32570).

(b) Reports on Form 8-K

We filed a Current Report on Form 8-K in March 2000 in connection with our acquisition of Voyager Technologies, Inc.

(c) Exhibits

See Item 14(a)(3) above.

(d) Financial Statement Schedules

See Item 14(a)(2) above.

PCTEL, INC.

Schedule II --Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Charged against Revenue	Deductions	Balance at End of Period
Year Ended December 31, 1998:					
Allowance for doubtful accounts	$ 308	$ --	$ 465	$ (25)	$ 748
Allowance for price discounts	$ 296	$ --	$ 4,215	$(3,571)	$ 940
Inventory reserves	$ 2,002	$ 330	$ --	$ --	$ 2,332
Accrued royalties	$ 6,505	$1,639	$ --	$(3,000) (a)	$ 5,144
Year Ended December 31, 1999:					
Allowance for doubtful accounts	$ 748	$ --	$ 1,674	$ (209)	$ 2,213
Allowance for price discounts	$ 940	$ --	$ 4,400	$(2,324)	$ 3,016
Inventory reserves	$ 2,332	$1,121	$ --	$(1,832)	$ 1,621
Accrued royalties	$ 5,144	$3,861	$ --	$(1,137)	$ 7,868
Year Ended December 31, 2000:					
Allowance for doubtful accounts	$ 2,213	$ --	$ 3,677	$ (847)	$ 5,043
Allowance for price discounts	$ 3,016	$ --	$12,999	$(9,169)	$ 6,846
Inventory reserves	$ 1,621	$ 918	$ --	$ --	$ 2,539
Accrued royalties	$ 7,868	$4,475	$ --	$ (687)	$11,656

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a) Represents a reversal of $3.0 million in accrued royalties in the fourth quarter of 1998, upon consummation of the acquisition of Communications Systems Division. We believe that in some instances they can obtain necessary licenses of third party technologies in exchange for grants of cross licenses of their patent portfolio rather than payment of license fees or royalties.

SIGNATURES

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

PCTEL, Inc.
A Delaware Corporation
(Registrant)

/s/ William F. Roach

William F. Roach
Chief Executive Officer and Director

Dated: March 28, 2001

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

Signature	Title	Date
/s/ William F. Roach (William F. Roach)	Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2001
/s/ Andrew D. Wahl (Andrew D. Wahl)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2001
/s/ Martin H. Singer (Martin H. Singer)	Non-Executive Chairman of the Board and Director	March 28, 2001
/s/ Richard C. Alberding (Richard C. Alberding)	Director	March 28, 2001
/s/ Peter Chen (Peter Chen)	Director	March 28, 2001
/s/ Wen C. Ko (Wen C. Ko)	Director	March 28, 2001
/s/ Giacomo Marini (Giacomo Marini)	Director	March 28, 2001
/s/ Mike Min-Chu Chen (Mike Min-Chu Chen)	Director	March 28, 2001

EXHIBIT 10.17

TIER I

PC-TEL, INC.

MANAGEMENT RETENTION AGREEMENT

This Management Retention Agreement (the "Agreement") is made and entered into by and between ________________________ (the "Executive") and PC-Tel, Inc. (the "Company"), effective as of the latest date set forth by the signatures of the parties hereto below (the "Effective Date").

R E C I T A L S

A. It is expected that the Company from time to time may consider a Change of Control (as defined below). The Board of Directors of the Company (the "Board") recognizes that such consideration can be a distraction to the Executive and can cause the Executive to consider alternative employment opportunities. The Board has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company.

B. The Board believes that it is in the best interests of the Company and its stockholders to provide the Executive with an incentive to continue his employment and to motivate the Executive to maximize the value of the Company upon a Change of Control for the benefit of its stockholders.

C. The Board believes that it is imperative to provide the Executive with severance benefits upon Executive's termination of employment following a Change of Control which provides the Executive with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility of a Change of Control.

D. Certain capitalized terms used in this Agreement are defined in Section 5 below.

The parties hereto agree as follows:

1. Term of Agreement. This Agreement shall terminate upon the date that all obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and the Executive acknowledge that the Executive's employment is and shall continue to be at-will, as defined under applicable law, and may be terminated by either party at any time, with or without cause or notice. If the Executive's employment terminates for any reason, including (without limitation) any termination prior to a Change of Control, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in

accordance with the Company's established employee plans or pursuant to other written agreements with the Company.

3. Change of Control Severance Benefits.

(a) Involuntary Termination other than for Cause, Death or Disability or Voluntary Termination for Good Reason Following A Change of Control. If, within twelve (12) months following a Change of Control, Employee's employment is terminated (i) involuntarily by the Company other than for Cause, death or Disability or (ii) by the Executive pursuant to a Voluntary Termination for Good Reason, then, subject to Executive entering into a standard form of mutual release of claims with the Company, the Company shall provide Executive with the following benefits upon such termination:

(i) Severance Payment. A lump-sum cash payment in an amount equal to two hundred percent (200%) of the Executive's Annual Compensation;

(ii) Continued Executive Benefits. Company-paid health, dental, vision, long-term disability and life insurance coverage at the same level of coverage as was provided to such Executive immediately prior to the Change of Control and at the same ratio of Company premium payment to Executive premium payment as was in effect immediately prior to the Change of Control (the "Company-Paid Coverage"). If such coverage included the Executive's dependents immediately prior to the Change of Control, such dependents shall also be covered at Company expense. Company-Paid Coverage shall continue until the earlier of (A) one year from the date of termination, or (B) the date upon which the Executive and his dependents become covered under another employer's group health, dental, vision, long-term disability or life insurance plans that provide Executive and his dependents with comparable benefits and levels of coverage. For purposes of Title X of the Consolidated Budget Reconciliation Act of 1985 ("COBRA"), the date of the "qualifying event" for Executive and his or her dependents shall be the date upon which the Company-Paid Coverage commences, and each month of Company-Paid Coverage provided hereunder shall offset a month of continuation coverage otherwise due under COBRA.

(iii) Pro-Rated Bonus Payment. A lump-sum cash payment equal to one hundred percent (100%) of the higher of (A) Executive's Target Bonus as in effect for the fiscal year in which the Change of Control occurs or (B) Executive's Target Bonus as in effect for the fiscal year in which Executive's termination occurs, pro-rated by multiplying such bonus amount in clause (A) or (B), as applicable, by a fraction, the numerator of which shall be the number of days prior to Executive's termination during such fiscal year, and the denominator of which shall be three-hundred and sixty-five.

(iv) Equity Compensation Accelerated Vesting. One Hundred percent (100%) of the unvested portion of any stock option, restricted stock or other Company equity compensation held by the Executive shall be automatically accelerated in full so as to become completely vested.

(b) Voluntary Resignation. If the Executive's employment terminates by reason of the Executive's voluntary resignation (and is not a Voluntary Termination for Good Reason), then the Executive shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

(c) Disability; Death. If the Employee's employment with the Company terminates as a result of the Executive's Disability, or if Executive's employment is terminated due to the death of the Executive, then the Executive shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

(d) Termination for Cause. If the Executive is terminated for Cause, then the Executive shall not be entitled to receive severance or other benefits.

(e) Termination Apart from Change of Control. In the event the Executive's employment is terminated for any reason, either prior to the occurrence of a Change of Control or after the twelve (12) month period following a Change of Control, then the Executive shall be entitled to receive severance and any other benefits only as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

4. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Annual Compensation. "Annual Compensation" shall mean an amount equal to Executive's Company annual base salary.

(b) Target Bonus. "Target Bonus" shall mean Executive's annual bonus, assuming one hundred percent (100%) "on target" satisfaction of any objective or subjective performance milestones.

(c) Cause. "Cause" shall mean (i) an act of personal dishonesty taken by the Executive in connection with his responsibilities as an employee and intended to result in substantial personal enrichment of the Executive, (ii) Executive being convicted of a felony, (iii) a willful act by the Executive which constitutes gross misconduct and which is injurious to the Company, (iv) following delivery to the Executive of a written demand for performance from the Company which describes the basis for the Company's reasonable belief that the Executive has not substantially performed his duties, continued violations by the Executive of the Executive's obligations to the Company which are demonstrably willful and deliberate on the Executive's part.

(d) Change of Control. "Change of Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities who is not already such as of the Effective Date of this Agreement; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all the Company's assets; or

(iii) The consummation of 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 out-standing or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(iv) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date upon which this Agreement was entered into, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described in subsections (i), (ii), or (iii) above, or in connection with an actual or threatened proxy contest relating to the election of directors to the Company.

(e) Disability. "Disability" shall mean that the Executive has been unable to perform his Company duties as the result of his incapacity due to physical or mental illness, and such in-ability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least 30 days' written notice by the Company of its intention to terminate the Employee's employment. In the event that the Executive resumes the performance of substantially all of his duties hereunder before the termination of his employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(f) Voluntary Termination for Good Reason. "Voluntary Termination for Good Reason" shall mean the Executive voluntarily resigns after the occurrence of any of the following (i) without the Executive's express written consent, a material reduction of the Executive's duties, title, authority or responsibilities, relative to the Executive's duties, title, authority or responsibilities as in effect immediately prior to such reduction, or the assignment to Executive of such reduced duties, title, authority or responsibilities; provided, however, that a reduction in duties, title, authority or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the senior vice-president of a business unit of the Company remains as such following a Change of Control) shall not by itself constitute grounds for a "Voluntary Termination for Good Reason;" (ii) without the Executive's express written consent, a material reduction, without good business reasons, of the facilities and perquisites (including office space and location) available to the Executive immediately prior to such reduction; (iii) a reduction by the Company in the base salary of the Executive as in effect immediately prior to such reduction; (iv) a material reduction by the Company in the aggregate level of employee benefits, including bonuses, to which the Executive was entitled immediately prior to such reduction with the result that the Executive's aggregate benefits package is materially reduced (other than a reduction that generally applies to Company employees); (v) the relocation of the Executive to a facility or a location more than thirty-five (35) miles from the Executive's then present location, without the Executive's express written consent; (vi) the failure of the Company to obtain the assumption of this agreement by any successors contemplated in Section 6(a) below; or (vii) any act or set of facts or circumstances which would, under California case law or statute constitute a constructive termination of the Executive.

5. Non-Solicitation. In consideration for the severance benefits Executive is to receive herein, if any, Executive agrees that he or she will not, at any time during the one year following his or her termination date, directly or indirectly solicit any individuals to leave the Company's (or any of its subsidiaries') employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company (or any of its subsidiaries) and its current or prospective employees.

6. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any such successor to the Company which executes and delivers the assumption agreement described in this Section 6(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

7. Notice.

(a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or one day following mailing via Federal Express or similar overnight courier service. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Notice of Termination. Any termination by the Company for Cause or by the Executive pursuant to a Voluntary Termination for Good Reason shall be communicated by a notice of termination to the other party hereto given in accordance with Section 7(a) of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than

30 days after the giving of such notice). The failure by the Executive to include in the notice any fact or circumstance which contributes to a showing of Voluntary Termination for Good Reason shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing his rights hereunder.

8. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Executive shall not be required to mitigate the value of any benefits contemplated by this Agreement, nor shall any such benefits be reduced by any earnings or benefits that the Executive may receive from any other source.

(b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by two authorized officers of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. This Agreement represents the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior arrangements and understandings regarding same.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

PC-TEL, INC.

By:______________________________

Title:___________________________

Date:____________________

EMPLOYEE

____

Date:____________________

EXHIBIT 10.18

TIER II

PC-TEL, INC.

MANAGEMENT RETENTION AGREEMENT

This Management Retention Agreement (the "Agreement") is made and entered into by and between ______________________ (the "Executive") and PC-Tel, Inc. (the "Company"), effective as of the latest date set forth by the signatures of the parties hereto below (the "Effective Date").

R E C I T A L S

A. It is expected that the Company from time to time may consider a Change of Control (as defined below). The Board of Directors of the Company (the "Board") recognizes that such consideration can be a distraction to the Executive and can cause the Executive to consider alternative employment opportunities. The Board has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control of the Company.

B. The Board believes that it is in the best interests of the Company and its stockholders to provide the Executive with an incentive to continue his employment and to motivate the Executive to maximize the value of the Company upon a Change of Control for the benefit of its stockholders.

C. The Board believes that it is imperative to provide the Executive with severance benefits upon Executive's termination of employment following a Change of Control which provides the Executive with enhanced financial security and incentive and encouragement to remain with the Company notwithstanding the possibility of a Change of Control.

D. Certain capitalized terms used in this Agreement are defined in Section 5 below.

The parties hereto agree as follows:

1. Term of Agreement. This Agreement shall terminate upon the date that all obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and the Executive acknowledge that the Executive's employment is and shall continue to be at-will, as defined under applicable law, and may be terminated by either party at any time, with or without cause or notice. If the Executive's employment terminates for any reason, including (without limitation) any termination prior to a Change of Control, the Executive shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in

accordance with the Company's established Executive plans or pursuant to other written agreements with the Company.

3. Change of Control Severance Benefits.

(a) Involuntary Termination other than for Cause, Death or Disability or Voluntary Termination for Good Reason Following A Change of Control. If, within twelve (12) months following a Change of Control, Executive's employment is terminated (i) involuntarily by the Company other than for Cause, death or Disability or (ii) by the Executive pursuant to a Voluntary Termination for Good Reason, then, subject to Executive entering into a standard form of mutual release of claims with the Company, the Company shall provide Executive with the following benefits upon such termination:

(i) Severance Payment. A lump-sum cash payment in an amount equal to one hundred fifty percent (150%) of the Executive's Annual Compensation;

(ii) Continued Executive Benefits. Company-paid health, dental, vision, long-term disability and life insurance coverage at the same level of coverage as was provided to such Executive immediately prior to the Change of Control and at the same ratio of Company premium payment to Executive premium payment as was in effect immediately prior to the Change of Control (the "Company-Paid Coverage"). If such coverage included the Executive's dependents immediately prior to the Change of Control, such dependents shall also be covered at Company expense. Company-Paid Coverage shall continue until the earlier of (A) one year from the date of termination, or (B) the date upon which the Executive and his dependents become covered under another employer's group health, dental, vision, long-term disability or life insurance plans that provide Executive and his dependents with comparable benefits and levels of coverage. For purposes of Title X of the Consolidated Budget Reconciliation Act of 1985 ("COBRA"), the date of the "qualifying event" for Executive and his or her dependents shall be the date upon which the Company-Paid Coverage commences, and each month of Company-Paid Coverage provided hereunder shall offset a month of continuation coverage otherwise due under COBRA.

(iii) Pro-Rated Bonus Payment. A lump-sum cash payment equal to one hundred percent (100%) of the higher of (A) Executive's Target Bonus as in effect for the fiscal year in which the Change of Control occurs or (B) Executive's Target Bonus as in effect for the fiscal year in which Executive's termination occurs, pro-rated by multiplying such bonus amount in clause (A) or (B), as applicable, by a fraction, the numerator of which shall be the number of days prior to Executive's termination during such fiscal year, and the denominator of which shall be three-hundred and sixty-five.

(iv) Equity Compensation Accelerated Vesting. One Hundred percent (100%) of the unvested portion of any stock option, restricted stock or other Company equity compensation held by the Executive shall be automatically accelerated in full so as to become completely vested.

(b) Voluntary Resignation. If the Executive's employment terminates by reason of the Executive's voluntary resignation (and is not a Voluntary Termination for Good

Reason), then the Executive shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

(c) Disability; Death. If the Executive's employment with the Company terminates as a result of the Executive's Disability, or if Executive's employment is terminated due to the death of the Executive, then the Executive shall not be entitled to receive severance or other benefits except for those (if any) as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

(d) Termination for Cause. If the Executive is terminated for Cause, then the Executive shall not be entitled to receive severance or other benefits.

(e) Termination Apart from Change of Control. In the event the Executive's employment is terminated for any reason, either prior to the occurrence of a Change of Control or after the twelve (12) month period following a Change of Control, then the Executive shall be entitled to receive severance and any other benefits only as may then be established under the Company's then existing severance and benefits plans or pursuant to other written agreements with the Company.

4. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Annual Compensation. "Annual Compensation" shall mean an amount equal to the Executive's Company annual base salary.

(b) Target Bonus. "Target Bonus" shall mean Executive's annual bonus, assuming 100% "on target" satisfaction of any objective or subjective performance milestones.

(c) Cause. "Cause" shall mean (i) an act of personal dishonesty taken by the Executive in connection with his responsibilities as an Executive and intended to result in substantial personal enrichment of the Executive, (ii) Executive being convicted of a felony, (iii) a willful act by the Executive which constitutes gross misconduct and which is injurious to the Company, (iv) following delivery to the Executive of a written demand for performance from the Company which describes the basis for the Company's reasonable belief that the Executive has not substantially performed his duties, continued violations by the Executive of the Executive's obligations to the Company which are demonstrably willful and deliberate on the Executive's part.

(d) Change of Control. "Change of Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities who is not already such as of the Effective Date of this Agreement; or

(ii) The consummaion of the sale or disposition by the Company of all or substantially all the Company's assets; or

(iii) The consummation of 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 or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation; or

(iv) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date upon which this Agreement was entered into, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described in subsections (i), (ii), or (iii) above, or in connection with an actual or threatened proxy contest relating to the election of directors to the Company; or

(e) Disability. "Disability" shall mean that the Executive has been unable to perform his Company duties as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least 30 days' written notice by the Company of its intention to terminate the Executive's employment. In the event that the Executive resumes the performance of substantially all of his duties hereunder before the termination of his employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(f) Voluntary Termination for Good Reason. "Voluntary Termination for Good Reason" shall mean the Executive voluntarily resigns after the occurrence of any of the following (i) without the Executive's express written consent, a material reduction of the Executive's duties, title, authority or responsibilities, relative to the Executive's duties, title, authority or responsibilities as in effect immediately prior to such reduction, or the assignment to Executive of such reduced duties, title, authority or responsibilities; provided, however, that a reduction in duties, title, authority or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Senior Vice-President of a business unit of the Company remains as such following a Change of Control) shall not by itself constitute grounds for a "Voluntary Termination for Good Reason;" (ii) without the Executive's express written consent, a material reduction, without good business reasons, of the facilities and perquisites (including office space and location) available to the Executive immediately prior to such reduction; (iii) a reduction by the Company in the base salary of the Executive as in effect immediately prior to such reduction; (iv) a material reduction by the Company in the aggregate level of Executive benefits, including bonuses, to which the Executive was entitled immediately prior to such reduction with the result that the Executive's aggregate benefits package is materially reduced (other than a reduction that generally applies to Company Executives); (v) the relocation of the Executive to a facility or a location more than thirty-five (35) miles from the Executive's then present location, without the Executive's express written consent; (vi) the failure of the Company to obtain the assumption of this agreement by any successors contemplated in Section 6(a) below; or (vii) any act or set of facts or circumstances which would, under California case law or statute constitute a constructive termination of the Executive.

5. Non-Solicitation. In consideration for the severance benefits Executive is to receive herein, if any, Executive agrees that he or she will not, at any time during the one year following his or her termination date, directly or indirectly solicit any individuals to leave the Company's (or any of its subsidiaries') employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company (or any of its subsidiaries) and its current or prospective Executives.

6. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any such successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 6(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

7. Notice.

(a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or one day following mailing via Federal Express or similar overnight courier service. In the case of the Executive, mailed notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Notice of Termination. Any termination by the Company for Cause or by the Executive pursuant to a Voluntary Termination for Good Reason shall be communicated by a notice of termination to the other party hereto given in accordance with Section 7(a) of this Agreement. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date (which shall be not more than 30 days after the giving of such notice). The failure by the Executive to include in the notice any fact or circumstance which contributes to a showing of Voluntary Termination for Good Reason shall not waive any right of the Executive hereunder or preclude the Executive from asserting such fact or circumstance in enforcing his rights hereunder.

8. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Executive shall not be required to mitigate the value of any benefits contemplated by this Agreement, nor shall any such benefits be reduced by any earnings or benefits that the Executive may receive from any other source.

(b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by two authorized officers of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. This Agreement represents the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior arrangements and understandings regarding same.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

PC-TEL, INC.

By:________________________________

Title:_____________________________

Date:____________________

By:________________________________

Title:_____________________________

Date:____________________

EXECUTIVE

____

Date:____________________

EXHIBIT 10.19

EXECUTIVE

SEVERANCE AGREEMENT AND RELEASE

RECITALS

This Executive Severance Agreement and Release ("Agreement") is made by and between Peter C. Chen ("Employee") and PC Tel, Inc. ("Company"), collectively referred to as the ("Parties"):

A. Employee was employed by the Company as Chief Executive Officer

B. The Company and Employee have entered into a Confidential and Proprietary Information Agreement (the "Confidentiality Agreement");

C. Employee resigned his position effective February 16, 2001 ("Resignation Date"), but will continue in his position as a Director on the Board of Directors for PCTEL under the title "Honorary Chairman" until a successor is fully elected.

D. The Parties, and each of them, wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that the Employee may have against the Company as defined herein, including, but not limited to, any and all claims arising or in any way related to Employee's employment with, or separation from, the Company;

NOW THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration.

(a) Commencing with the Resignation Date, the Company agrees to pay Employee a severance payment of one year's salary, which is Two Hundred and Seventy Thousand ($270,000) Dollars, in exchange for the covenants and releases herein.

(b) Payment. The Company shall pay employee a severance payment of $22,500 within 5 days of the Effective Date of this Agreement. Provided Employee does not breach any term or provision of this Agreement at any time within the 11 months that follow the end of the first month after the Resignation Date, on the tenth day of each month between March 10, 2001 and March 9, 2002, Employee shall receive an additional severance payment of $22,500. Thus, if within one year of the Resignation Date of this Agreement, Employee does not breach any term or provision of this Agreement, Employee shall receive a total severance payment of $270,000.

(c) The Company will issue an Internal Revenue Service Form 1099 to Employee for the purpose of reporting the payments described in section 1(b).

(d) Vesting of Stock. As of Employee's Resignation Date (February 16, 2001), Employee is fully vested in 782,187 shares of the Company's common stock and 161,146 unvested options shares are not yet exercisable . In further consideration for the covenants and releases contained in this Agreement, and contingent upon approval by the Company's Board of Directors, Company agrees that Employee's status as a "Service Provider" as defined in the Company's Stock Option Plan, shall continue uninterrupted for the next 12 months and Employee shall continue to vest in all current unvested options he has pursuant to any stock option agreement between Employee and Company for the next 12 months. Employee shall continue to be subject to the terms and conditions of the Company's Stock Option Plan and the applicable Stock Option Agreement between Employee and the Company. By continuing your participation in the PCTEL's Common Stock Option Plan it is further understood that you waive your participation in the 1998 Director Option Plan.

(e) Benefits. Health benefit coverage for the Employee shall cease as of February 28, 2001. Employee shall have the right to convert his health insurance benefits to individual coverage pursuant to COBRA, effective March 1, 2001. Should Employee elect COBRA coverage, the Company will pay the cost of said COBRA coverage for a period up to 12 months, or until March 2002.

(f) Life Insurance: Company will continue to cover the supplemental life policy (Key Man Policy) for a period of 6 months from the Effective Date of this Agreement.

2. Confidential Information. Employee shall continue to maintain the confidentiality of all confidential and proprietary information of the Company and shall continue to comply with the terms and conditions of the Confidentiality Agreement between Employee and the Company. Employee, shall except for materials received in his capacity as an active member of the Board of Directors, return all of the Company's property and confidential and proprietary information in his possession to the Company on the Resignation Date of this Agreement.

3. Payment of Salary. Employee acknowledges and represents that the Company has paid all salary, wages, bonuses, accrued vacation, commissions and any and all other benefits due to Employee once the above noted payments and benefits are received.

4. Release of Claims. The Parties agree that the consideration set forth in this Agreement represents settlement in full of all outstanding obligations owed by one Party to the other . The Parties, on their own behalves, and on behalf of their respective heirs, family members, executors, officers, directors, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations, and assigns, hereby fully and forever releases the other Party, and the other Party's heirs, family members, executors, officers, directors, employees, investors, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations, and assigns, from, and agree not to sue concerning, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that

they may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date of this Agreement including, without limitation:

(a) any and all claims relating to or arising from Employee's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims under the law of any jurisdiction including, but not limited to, wrongful discharge of employment; constructive discharge from employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, Older Workers Benefit Protection Act; the California Fair Employment and Housing Act, and Labor Code section 201, et seq. and section 970, et seq.;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Employee as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

The Company and Employee agree that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement, any stock option agreement entered into with Employee, or to the Company's obligation under its Indemnification Agreement with Employee, or to the Company's obligations to indemnify Employee pursuant to the Company's Articles of Incorporation, By-Laws, or as otherwise provided by law.

5. Acknowledgement of Waiver of Claims Under ADEA. Employee acknowledges that he is waiving and releasing any rights he may have under the Age Discrimination in Employment

Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under ADEA after the Effective Date of this Agreement. Employee acknowledges that the consideration given for this waiver and release agreement is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that he has been advised by this writing that

(a) he should consult with an attorney *prior* to executing this Agreement;

(b) he has up to twenty-one (21) days within which to consider this Agreement;

(c) he has been advised in writing by the Company of the class, unit, or group of individuals covered by the severance program, and the job titles and ages of all individuals who participated and did not participate in the program;

(d) he has seven (7) days following his execution of this Agreement to revoke the Agreement;

(e) this Agreement shall not be effective until the revocation period has expired; and

(f) nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

6. *Civil Code Section 1542.* The Parties represent that they are not aware of any claim by either of them other than the claims that are released by this Agreement. Employee and the Company acknowledge that they have been advised by legal counsel and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Employee and the Company, being aware of said code section, agree to expressly waive any rights they may have thereunder, as well as under any other statute or common law principles of similar effect.

7. *No Pending or Future Lawsuits.* Employee and the Company represent that they have no lawsuits, claims, or actions pending in their names, or on behalf of any other person or entity, against the other or any other person or entity referred to herein. Employee and the Company also represents that they do not intend to bring any claims on their own behalf or on behalf of any other person or entity against the other or any other person or entity referred to herein.

8. Confidentiality. The Parties acknowledge that Employee's agreement to keep the terms and conditions of this Agreement confidential was a material factor on which all Parties relied in entering into this Agreement. Employee hereto agrees to use his best efforts to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, the consideration for this Agreement, and any allegations relating to the Company or his employment with the Company except as otherwise provided for in this Agreement (hereinafter collectively referred to as "Settlement Information"). Employee agrees to take every reasonable precaution to prevent disclosure of any Settlement Information to third parties, and agrees that there will be no publicity, directly or indirectly, concerning any Settlement Information. Employee agrees to take every precaution to disclose Settlement Information only to those attorneys, accountants, governmental entities, financial advisors and family members who have a reasonable need to know of such Settlement Information.

9. No Cooperation. Employee agrees he will not act in any manner that is intended to damage the business of the Company. Employee agrees that he will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, shareholder or attorney of the Company, unless under a subpoena or other court order to do so. Employee further agrees both to immediately notify the Company upon receipt of any court order, subpoena, or any legal discovery device that seeks or might require the disclosure or production of the existence or terms of this Agreement, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or legal discovery device to the Company.

10. Non-Disparagement. Employee and the Company agree to refrain from any defamation, libel or slander of the other or tortious interference with the contracts and relationships of the other .

11. Non-Solicitation. Employee agrees that for a period of twelve (12) months immediately following the Resignation Date of this Agreement, Employee shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees to leave their employment, or attempt to solicit, induce, recruit, encourage, take away or hire employees of the Company, either for him or any other person or entity.

12. No Admission of Liability. The Parties understand and acknowledge that this Agreement constitutes a compromise and settlement of disputed claims. No action taken by the Parties hereto, or either of them, either previously or in connection with this Agreement shall be deemed or construed to be:

(a) an admission of the truth or falsity of any claims heretofore made or

(b) an acknowledgment or admission by either Party of any fault or liability whatsoever to the other Party or to any third party.

13. Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

14. <u>Tax Consequences</u>. The Company makes no representations or warranties with respect to the tax consequences of the payment of any sums to Employee under the terms of this Agreement. Employee agrees and understands that he is responsible for payment, if any, of local, state and/or federal taxes on the sums paid hereunder by the Company and any penalties or assessments thereon. Employee further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of Employee's failure to pay federal or state taxes or damages sustained by the Company by reason of any such claims, including reasonable attorneys' fees.

15. <u>Indemnification</u>. The Parties agree to indemnify and hold harmless the other from and against any and all loss, costs, damages or expenses, including, without limitation, attorneys' fees or expenses incurred by the non - breaching Party arising out of the breach of this Agreement by the other, or from any false representation made herein by the other, or from any action or proceeding which may be commenced, prosecuted or threatened by the other or for the other's benefit, upon the other's initiative, or with the other's aid or approval, contrary to the provisions of this Agreement. The Parties further agrees that in any such action or proceeding, this Agreement may be pled by the non-breaching Party as a complete defense, or may be asserted by way of counterclaim or cross-claim.

16. <u>Arbitration</u>. The Parties agree that any and all disputes arising out of the terms of this Agreement, their interpretation, and any of the matters herein released, shall be subject to binding arbitration in Santa Clara County before the American Arbitration Association under its Employment Dispute Resolution Rules, or by a judge to be mutually agreed upon. The Parties agree that the prevailing party in any arbitration shall be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The Parties agree that the prevailing party in any arbitration shall be awarded its reasonable attorneys' fees and costs. The Parties hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury.

17. <u>Authority</u>. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Employee represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him/her to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

18. <u>No Representations</u>. Each Party represents that it has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Neither Party has relied upon any representations or statements made by the other Party hereto which are not specifically set forth in this Agreement.

19. <u>Severability</u>. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full

force and effect without said provision so long as the remaining provisions remain intelligible and continue to reflect the original intent of the Parties.

20. Entire Agreement. This Agreement, and the Confidentiality Agreement, constitute the entire agreement and understanding between the Parties concerning the subject matter of this Agreement and all prior representations, understandings, and agreements concerning the subject matter of this Agreement have been superseded by the terms of this Agreement.

21. No Waiver. The failure of any Party to insist upon the performance of any of the terms and conditions in this Agreement, or the failure to prosecute any breach of any of the terms and conditions of this Agreement, shall not be construed thereafter as a waiver of any such terms or conditions. This entire Agreement shall remain in full force and effect as if no such forbearance or failure of performance had occurred.

22. No Oral Modification. Any modification or amendment of this Agreement, or additional obligation assumed by either Party in connection with this Agreement, shall be effective only if placed in writing and signed by both Parties or by authorized representatives of each Party. No provision of this Agreement can be changed, altered, modified, or waived except by an executed writing by the Parties.

23. Governing Law. This Agreement shall be deemed to have been executed and delivered within the State of California, and it shall be construed, interpreted, governed, and enforced in accordance with the laws of the State of California.

24. Attorneys' Fees. In the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, plus reasonable attorneys' fees, incurred in connection with such an action.

25. Effective Date. This Agreement is effective eight (8) days after it has been signed by both Parties, unless revoked by Employee within seven (7) days of execution.

26. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

27. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

(a) They have read this Agreement;

(b) They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) They understand the terms and consequences of this Agreement and of the releases it contains; and

(d) They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

Dated: 2/15/01

By /s/ Thomas A. Capizzi

Thomas A. Capizzi
Vice President. Human Resources &
Chief Administrative Officer

Peter C. Chen, an individual

Dated: 2/15/01

/s/ Peter C. Chen

Peter C. Chen

EXHIBIT 21.1

List of Subsidiaries of the Registrant

1. PC-TEL Global Technologies Ltd.
2. PC-TEL Japan, K.K.
3. Voyager Technologies, Inc.