

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____
Commission File Number 000-27115

PCTEL, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

**471 Brighton Drive,
Bloomington, IL**
(Address of Principal Executive Office)

77-0364943
(I.R.S. Employer
Identification Number)

60108
(Zip Code)

Registrant's Telephone Number, Including Area Code: (630) 372-6800

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	PCTI	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 9, 2022, the registrant had 18,773,994 shares of common stock, \$0.001 par value per share, outstanding.

PCTEL, INC.
Form 10-Q
For the Quarterly Period Ended September 30, 2022

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)

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

	September 30, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	\$ 5,858	\$ 8,192
Short-term investment securities	22,147	22,562
Accounts receivable, net of allowances of \$143 and \$64 at September 30, 2022 and December 31, 2021, respectively	20,553	18,905
Inventories, net	16,730	13,691
Prepaid expenses and other assets	1,374	1,747
Total current assets	66,662	65,097
Property and equipment, net	10,300	11,949
Goodwill	5,778	6,334
Intangible assets, net	1,058	1,579
Other noncurrent assets	2,636	2,438
TOTAL ASSETS	\$ 86,434	\$ 87,397
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 6,194	\$ 5,360
Accrued liabilities	10,618	11,117
Total current liabilities	16,812	16,477
Long-term liabilities	3,533	3,999
Total liabilities	20,345	20,476
Stockholders' equity:		
Common stock, \$0.001 par value, 50,000,000 shares authorized at September 30, 2022 and December 31, 2021, respectively, and 18,676,629 and 18,238,030 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	19	18
Additional paid-in capital	123,964	123,998
Accumulated deficit	(55,916)	(56,735)
Accumulated other comprehensive loss	(1,978)	(360)
Total stockholders' equity	66,089	66,921
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 86,434	\$ 87,397

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
REVENUES	\$ 25,988	\$ 22,411	\$ 73,506	\$ 61,799
COST OF REVENUES	14,052	12,157	40,810	33,266
GROSS PROFIT	11,936	10,254	32,696	28,533
OPERATING EXPENSES:				
Research and development	3,178	3,338	9,784	9,754
Sales and marketing	3,600	3,347	10,910	9,497
General and administrative	3,705	2,817	10,399	9,228
Amortization of intangible assets	63	80	201	135
Restructuring expenses	57	(1)	1,309	59
Total operating expenses	10,603	9,581	32,603	28,673
OPERATING INCOME (LOSS)	1,333	673	93	(140)
Other income (expense), net	205	(4)	330	(10)
INCOME (LOSS) BEFORE INCOME TAXES	1,538	669	423	(150)
(Benefit) Expense for income taxes	(434)	5	(396)	17
NET INCOME (LOSS)	<u>\$ 1,972</u>	<u>\$ 664</u>	<u>\$ 819</u>	<u>\$ (167)</u>
Net Income (Loss) per Share:				
Basic	\$ 0.11	\$ 0.04	\$ 0.05	\$ (0.01)
Diluted	\$ 0.11	\$ 0.04	\$ 0.04	\$ (0.01)
Weighted Average Shares:				
Basic	18,166	17,945	18,099	18,078
Diluted	18,187	17,962	18,214	18,078

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

PCTEL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)
(in thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
NET INCOME (LOSS)	\$ 1,972	\$ 664	\$ 819	\$ (167)
OTHER COMPREHENSIVE LOSS:				
Foreign currency translation adjustments	(686)	(152)	(1,618)	(238)
COMPREHENSIVE INCOME (LOSS)	<u><u>\$ 1,286</u></u>	<u><u>\$ 512</u></u>	<u><u>\$ (799)</u></u>	<u><u>\$ (405)</u></u>

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

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

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity of PCTEL, Inc.
BALANCE at JUNE 30, 2022	\$ 19	\$ 123,844	\$ (57,888)	\$ (1,292)	\$ 64,683
Stock-based compensation expense	0	1,147	0	0	1,147
Issuance of shares for stock purchase plans and stock options	0	0	0	0	0
Cancellation of shares for payment of withholding tax	0	0	0	0	0
Dividends paid (\$0.055 per share)	0	(1,027)	0	0	(1,027)
Net income	0	0	1,972	0	1,972
Change in cumulative translation adjustment, net	0	0	0	(686)	(686)
BALANCE at SEPTEMBER 30, 2022	<u>\$ 19</u>	<u>\$ 123,964</u>	<u>\$ (55,916)</u>	<u>\$ (1,978)</u>	<u>\$ 66,089</u>
BALANCE at JUNE 30, 2021	\$ 19	\$ 126,791	\$ (57,719)	\$ (68)	69,023
Stock-based compensation expense	0	372	0	0	372
Issuance of shares for stock purchase plans and stock options	0	0	0	0	-
Cancellation of shares for payment of withholding tax	0	0	0	0	0
Repurchase of common stock	(1)	(2,459)	0	0	(2,460)
Dividends paid (\$0.055 per share)	0	(1,002)	0	0	(1,002)
Net income	0	0	664	0	664
Change in cumulative translation adjustment, net	0	0	0	(152)	(152)
BALANCE at SEPTEMBER 30, 2021	<u>\$ 18</u>	<u>\$ 123,702</u>	<u>\$ (57,055)</u>	<u>\$ (220)</u>	<u>\$ 66,445</u>
BALANCE at DECEMBER 31, 2021	\$ 18	\$ 123,998	\$ (56,735)	\$ (360)	\$ 66,921
Stock-based compensation expense	1	3,006	0	0	3,007
Issuance of shares for stock purchase plans and stock options	0	404	0	0	404
Cancellation of shares for payment of withholding tax	0	(396)	0	0	(396)
Dividends paid (\$0.165 per share)	0	(3,048)	0	0	(3,048)
Net income	0	0	819	0	819
Change in cumulative translation adjustment, net	0	0	0	(1,618)	(1,618)
BALANCE at SEPTEMBER 30, 2022	<u>\$ 19</u>	<u>\$ 123,964</u>	<u>\$ (55,916)</u>	<u>\$ (1,978)</u>	<u>\$ 66,089</u>
BALANCE at DECEMBER 31, 2020	\$ 18	\$ 128,250	\$ (56,888)	\$ 18	\$ 71,398
Stock-based compensation expense	1	2,028	0	0	2,029
Issuance of shares for stock purchase plans and stock options	0	418	0	0	418
Cancellation of shares for payment of withholding tax	0	(782)	0	0	(782)
Repurchase of common stock	(1)	(3,192)	0	0	(3,193)
Dividends paid (\$0.165 per share)	0	(3,020)	0	0	(3,020)
Net loss	0	0	(167)	0	(167)
Change in cumulative translation adjustment, net	0	0	0	(238)	(238)
BALANCE at SEPTEMBER 30, 2021	<u>\$ 18</u>	<u>\$ 123,702</u>	<u>\$ (57,055)</u>	<u>\$ (220)</u>	<u>\$ 66,445</u>

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

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

	Nine Months Ended September 30,	
	2022	2021
Operating Activities:		
Net income (loss)	\$ 819	\$ (167)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,231	2,257
Intangible asset amortization	257	171
Stock-based compensation	3,007	2,029
Loss on disposal of property and equipment	0	3
Restructuring costs	(291)	(15)
Bad debt provision	70	(39)
Changes in operating assets and liabilities:		
Accounts receivable	(2,081)	2,162
Inventories	(3,402)	(1,734)
Prepaid expenses and other assets	574	932
Deferred tax assets	(484)	0
Accounts payable	974	(700)
Income taxes payable	15	(15)
Other accrued liabilities	(175)	1,405
Deferred revenue	(93)	82
Net cash provided by operating activities	1,421	6,371
Investing Activities:		
Capital expenditures	(550)	(2,006)
Purchases of investments	(21,971)	(21,124)
Redemptions/maturities of short-term investments	22,386	33,666
Cash paid for acquisition, net of cash acquired	0	(6,277)
Net cash (used in) provided by investing activities	(135)	4,259
Financing Activities:		
Proceeds from issuance of common stock	404	418
Payment of withholding tax on stock-based compensation	(396)	(782)
Principal payments on finance leases	(48)	(54)
Purchase of common stock from repurchase program	0	(3,193)
Cash dividends	(3,048)	(3,020)
Net cash used in financing activities	(3,088)	(6,631)
Net (decrease) increase in cash and cash equivalents	(1,802)	3,999
Effect of exchange rate changes on cash	(532)	12
Cash and cash equivalents, beginning of period	8,192	5,761
Cash and Cash Equivalents, End of Period	\$ 5,858	\$ 9,772

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

PCTEL, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands except share and per share data and as otherwise noted)

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal, recurring nature that are considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”).

Throughout this Quarterly Report on Form 10-Q, including under Part 1, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” we disclose certain macroeconomic impacts of the novel coronavirus (“COVID-19”) pandemic and the ensuing supply chain disruption, as well as macroeconomic trends, including inflationary pressures, an economic downturn and the potential for a recession. The full extent to which the COVID-19 pandemic and these macroeconomic trends will directly or indirectly impact the Company’s business, results of operations and financial condition will depend on future developments that remain highly uncertain at this time.

Nature of Operations

PCTEL, Inc. (“PCTEL” or “the Company”) was incorporated in California in 1994 and reincorporated in Delaware in 1998. The Company is a leading global provider of wireless technology, including purpose-built Industrial IoT devices, antenna systems, and test and measurement solutions. PCTEL solves complex wireless challenges to help organizations stay connected, transform, and grow and it has expertise in RF, digital, and mechanical engineering. The Company has two businesses (antennas & Industrial IoT devices and test & measurement products). These businesses are supported by the Company’s talent and expertise in RF, digital, and mechanical engineering.

The Company’s principal executive offices are located at 471 Brighton Drive, Bloomingdale, Illinois 60108. The telephone number at that address is (630) 372-6800 and the website is www.pctel.com. Additional information about the Company can be obtained on the Company’s website; however, the information within, or that can be accessed through, the Company’s website is not part of this Quarterly Report on Form 10-Q.

Basis of Consolidation

The unaudited interim condensed consolidated financial statements of the Company include the condensed consolidated balance sheets as of September 30, 2022 and December 31, 2021, the condensed consolidated statement of cash flows for the nine months ended September 30, 2022 and 2021, and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive (loss) income, and the condensed consolidated statements of stockholders’ equity for the three and nine months ended September 30, 2022 and 2021, respectively. The interim condensed consolidated financial statements are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The condensed consolidated balance sheet as of December 31, 2021 is derived from the audited financial statements as of December 31, 2021.

The unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The significant accounting policies followed by the Company are set forth in the 2021 Form 10-K. There were no material changes in the Company’s significant accounting policies during the three and nine months ended September 30, 2022. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2021 Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto included in the 2021 Form 10-K. The results of operations for the period ended September 30, 2022 may not be indicative of the results for the period ending December 31, 2022.

Foreign Operations

Cross-border transactions, both with external parties and in our internal operations, result in exposure to foreign exchange rate fluctuations. We are exposed to currency risk by having foreign locations with suppliers and employees located outside the U.S. Fluctuations could have an adverse effect on our results of operations and cash flows. We manage certain operating activities at the local

level with revenues, costs, assets, and liabilities generally being denominated in local currencies. However, our results of operations and assets and liabilities are reported in U.S. dollars and thus will fluctuate with changes in exchange rates between such local currencies and the U.S. dollar. Gains and losses resulting from transactions originally in foreign currencies and then translated into U.S. dollars are included in the condensed consolidated statements of operations. For the nine months ended September 30, 2022, approximately 11% of revenues and 13% of expenses were transacted in foreign currencies as compared to 9% and 20% for the nine months ended September 30, 2021. Net foreign exchange gains (losses) resulting from foreign currency transactions included in other income, net were \$114 and \$(10) for the three months ended September 30, 2022 and 2021, respectively. Net foreign exchange gains (losses) resulting from foreign currency transactions included in other income, net were \$187 and \$(54) for the nine months ended September 30, 2022 and 2021, respectively.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU 2017-14 Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. The changes are effective for smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company does not expect the adoption of this standard to have an impact on our financial statements or the related disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. Topic 848 is effective upon issuance and generally can be applied through December 31, 2022. The Company does not expect the adoption of this standard to have an impact on our financial statements or the related disclosures.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This update requires that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if the acquirer had originated the contracts. This ASU should be applied prospectively to business combinations occurring on or after the effective date of the update. This update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but should be applied to all acquisitions occurring in the annual period of adoption. The Company does not expect the adoption of this standard to have an impact on our financial statements or the related disclosures.

In June 2022, the FASB issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. This update clarifies the guidance in Topic 820 on the fair value measurement of an equity security that is subject to contractual restrictions that prohibit the sale of the equity security. This update also requires specific disclosures related to such an equity security including (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions. This ASU is effective for all public business entities in fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on our consolidated financial statements and related disclosures.

2. Fair Value of Financial Instruments

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

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

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

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

Cash equivalents are measured at fair value and investments are recognized at amortized cost in the Company's financial statements. Accounts receivable is a financial asset with a carrying value that approximates fair value due to the short-term nature of these assets. Accounts payable, accrued employee compensation and certain operating liabilities are financial liabilities with a carrying value that approximates fair value due to the short-term nature of these liabilities.

3. Income (Loss) per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic Income Per Share computation:				
Numerator:				
Net Income (loss)	\$ 1,972	\$ 664	\$ 819	\$ (167)
Denominator:				
Weighted shares outstanding - basic	18,165,611	17,945,053	18,098,694	18,077,506
Net Income (loss) per common share - basic	\$ 0.11	\$ 0.04	\$ 0.05	\$ (0.01)
Diluted Income Per Share computation:				
Denominator:				
Weighted shares outstanding - basic	18,165,611	17,945,053	18,098,694	18,077,506
Restricted shares subject to vesting	21,394	16,633	115,013	0
Common stock option grants	70	0	46	0
Weighted shares outstanding - diluted	18,187,075	17,961,686	18,213,753	18,077,506
Net Income (loss) per common share - diluted	\$ 0.11	\$ 0.04	\$ 0.04	\$ (0.01)

4. Business Combinations

On April 30, 2021, the Company acquired all the outstanding stock of Smarteq Wireless Aktiebolag ("Smarteq"), a Swedish company based in Kista, Sweden that designs antennas for specialized Industrial IoT and vehicular applications, pursuant to a Share Sale and Purchase Agreement (the "SPA") between PCTEL and Allgon Aktiebolag, a Swedish company and holder of the outstanding stock of Smarteq.

Pursuant to the SPA, the Company acquired Smarteq for a cash purchase price consisting of SEK 53.0 million plus working capital adjustments of SEK 1.6 million and an adjustment for the net cash at closing of SEK 2.1 million for total cash consideration of SEK 56.8 million (USD \$6.8 million), all of which was provided from PCTEL's existing cash. The Company believes the acquisition of Smarteq provides a strong local presence, expertise, and channel partners to accelerate revenue growth in Europe, as well as a complementary portfolio of products. The results for Smarteq are combined with the Company's antenna and Industrial IoT device product line. The Company applied the provisions of Accounting Standards Codification ("ASC") 805, Business Combinations, in accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired, and the liabilities assumed, at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the acquisition date fair values of the net assets acquired and the liabilities assumed. The Company used its best estimates and assumptions where applicable to accurately value assets acquired and liabilities assumed at the acquisition date. The operating results of the acquired business are included in the Company's consolidated financial statements from the date of the acquisition.

Fair Value of Purchase Consideration:

The following table summarizes the fair value of purchase consideration to acquire Smarteq:

Fair value of purchase consideration

Cash	\$	6,785
Working capital adjustment		(5)
Total purchase consideration	\$	6,780

Purchase Price Allocation:

The Company acquired all of the assets and liabilities of Smarteq, including cash of \$0.5 million and debt of \$0.1 million.

The following is an allocation of the purchase price as of the April 30, 2021 closing date based upon the fair value of the assets acquired and liabilities assumed by the Company in the acquisition:

Purchase Price Allocation:

Cash	\$	503
Accounts receivable		1,415
Prepaid expenses and other assets		109
Inventories		1,286
Right of use assets		232
Property and equipment		131
Intangible assets		1,983
Accounts payable		(981)
Accrued liabilities		(837)
Lease liabilities - short-term		(102)
Lease liabilities - long-term		(112)
Debt		(91)
Identifiable assets acquired	\$	3,536
Goodwill		3,244
Total purchase price	\$	6,780

The following is a summary of identifiable intangible assets acquired and the related expected lives for the finite-lived intangible assets:

Finite-lived assets:

Customer relationships	\$	787
Trade names		639
Technology		438
Other intangible assets		119
	\$	1,983

Intangible Assets:

	Useful Life
Customer relationships	5 years
Trade names	5 years
Technology	5 years
Other intangible assets	.5 to 5 years

Assumptions in the Allocations of Purchase Price

The Company prepared the purchase price allocation for the acquired Smarteq assets and in doing so utilized reports of a third-party valuation expert to calculate the fair value of the identifiable intangible assets. Estimates of fair value required management to make significant estimates and assumptions. The goodwill recognized is attributable primarily to the acquired workforce, expected synergies, and other benefits that the Company believes will result from integrating the Smarteq operations with the operations of the Company. The Company completed the final purchase price allocation.

The fair value of the customer relationships was determined using the multi-period excess earnings method ("MPEEM"). MPEEM estimates the value of an intangible asset by quantifying the amount of residual (or excess) cash flows generated by the future customer cash flows and discounting those cash flows to the present value. Future cash flows for customers were estimated based on forecasted revenue and costs, taking into account the growth rates, customer attrition, and contributory charges. The fair value of the customer backlog was calculated using the present value of the cash flows associated with the acquired backlog.

The fair values of the trade names, developed technology, and exclusive rights were determined using the relief-from-royalty method. The relief-from-royalty method is a specific application of the discounted-cash-flow method, which is a form of the income approach. It is based on the principle that ownership of the intangible asset relieves the owner of the need to pay a royalty to another party in exchange for rights to use the asset. Key assumptions to estimate the hypothetical royalty rate include observable royalty rates, which are royalty rates in negotiated licenses and market-based royalty rates which are royalty rates found in available market data for licenses involving similar assets.

The fair value of covenants not to compete was estimated using the with-or-without method. The with-and-without method estimates the value of an intangible asset by quantifying the loss of economic profits under a hypothetical condition where only the subject intangible does not exist and needs to be re-created. Projected revenues, operating expenses and cash flows are calculated in each "with" and "without" scenario and the difference in the cash flow is discounted to present value.

Inventory was valued at net realizable value. Raw materials were valued at book value and finished goods were valued assuming hypothetical revenues from finished goods adjusted for disposal costs, profit attributable to the seller and holding costs. An inventory step-up of \$0.5 million is included in the purchase price allocation above. The inventory step-up was calculated based on the net realizable value, on a part-by-part basis, of the inventory on the opening balance sheet. The amortization of the inventory step-up was recorded based on the consumption of those parts and was fully recognized during the period from the acquisition date through December 31, 2021.

The Company assumed gross accounts receivable of \$1.4 million. Based on Smarteq's bad debt experience and a review of the receivables, the Company does not anticipate an issue with collectability.

The Company assumed liabilities in the acquisition which primarily consist of accounts payable, accrued employee compensation and certain operating liabilities. The fair value of the liabilities assumed are valued at their cash settlement value.

As part of the acquisition of Smarteq on April 30, 2021, the Company assumed an office lease. The office in Kista, Sweden has 4,080 square feet used for engineering, sales, and administration and the lease term is through July 31, 2023. On the acquisition date, the Company recorded \$0.2 million for each of the right-of-use assets and the lease liabilities.

In connection with the acquisition of Smarteq, the Company assumed a five-year euro-denominated loan of approximately \$0.1 million with an interest rate of 0.57% and due in monthly installments from June 2022 until the loan term ends in May 2026. The loan was part of a program from the French Ministry of Economy and Finance to support French businesses during the COVID-19 pandemic. In September 2022, the Company repaid the principal of the loan and all interest due.

The Company recorded net deferred tax assets of \$2.4 million, primarily relating to deferred tax assets for net operating losses. The Company also booked a deferred tax asset for inventory reserves and deferred tax liabilities related to intangible asset amortization that is not deductible for income taxes. As of the acquisition date, the Company booked a full valuation allowance against the net deferred tax assets. While the Company expects book and tax profits in 2022 and future periods, Smarteq has recorded a three-year cumulative tax loss before the acquisition. Based on this objective evidence and uncertainty associated with the COVID-19 pandemic, the Company recorded a full valuation allowance on the opening balance sheet. In September 2022, the Company reversed \$0.4 million of the valuation allowance in recognition of the performance of and expectations for the Smarteq business.

Goodwill recorded in connection with the acquisition was \$3.2 million. The Company did not deduct any of the acquired goodwill for tax purposes. The Company recorded \$0.3 million of transaction costs in general and administrative expenses in the statement of operations. The transaction costs were not deductible for income tax purposes.

Supplemental pro forma financial information

The following unaudited pro forma financial information presents the combined results of operations for each of the periods presented as if the Smarteq acquisition had occurred as of January 1, 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Revenue - pro forma combined	\$ 25,988	\$ 22,411	\$ 73,506	\$ 64,517
Net Income - pro forma combined	1,972	797	905	493
Weighted Average Shares:				
Basic	18,166	17,945	18,099	18,078
Diluted	18,187	17,962	18,214	18,078
Net Income (Loss) per Share:				
Basic	\$ 0.11	\$ 0.04	\$ 0.05	\$ 0.03
Diluted	\$ 0.11	\$ 0.04	\$ 0.05	\$ 0.03

The following adjustments were included in the unaudited pro forma combined net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Revenue	\$ 25,988	\$ 22,411	\$ 73,506	\$ 61,799
Add: Net Revenue - acquired business	0	0	0	2,718
Net Revenue - pro forma combined	\$ 25,988	\$ 22,411	\$ 73,506	\$ 64,517

The following adjustments were included in the unaudited pro forma combined net income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Income (Loss)	\$ 1,972	\$ 664	\$ 819	\$ (167)
Add: Results of operations of acquired business	0	0	0	183
Less: pro forma adjustments				
Amortization of intangibles	0	3	0	(226)
Inventory fair value adjustments	0	133	0	416
Acquisition related expenses	0	0	86	304
Interest income	0	(3)	0	(17)
Net Income - pro forma combined	\$ 1,972	\$ 797	\$ 905	\$ 493

The unaudited pro forma financial information has been adjusted to reflect the amortization expense for acquired intangibles, removal of historical intangible asset amortization and recognition of expense associated with the step-up of inventory.

The pro forma data is presented for illustrative purposes only, and the historical results of Smarteq are based on its books and records prior to the acquisition and is not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred as of January 1, 2021. In addition, future results may vary significantly from the pro forma results reflected herein and should not be relied upon as an indication of the results of future operations of the combined business. The unaudited pro forma financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquired entity.

5. Cash, Cash Equivalents and Investments

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

	September 30, 2022	December 31, 2021
Cash	\$ 4,235	\$ 6,789
Cash equivalents	1,623	1,403
Short-term investments	22,147	22,562
Total	\$ 28,005	\$ 30,754

Cash and Cash Equivalents

At September 30, 2022 and December 31, 2021, cash and cash equivalents included bank balances and investments with original maturities of less than 90 days. At September 30, 2022 and December 31, 2021, the Company's cash equivalents were invested in highly liquid AAA rated money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940. Such funds utilize the amortized cost method of accounting, seek to maintain a constant \$1.00 per share price, and are redeemable upon demand. The Company restricts its investments in AAA money market funds to those invested 100% in either short-term U.S. government agency securities or bank repurchase agreements collateralized by these same securities. The fair values of these money market funds are established through quoted prices in active markets for identical assets (Level 1 inputs). The Company's cash in U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of \$250.

The cash in foreign accounts was as follows:

	September 30, 2022	December 31, 2021
China	\$ 2,439	\$ 2,801
Europe	1,445	1,108
Total	<u>\$ 3,884</u>	<u>\$ 3,909</u>

As of September 30, 2022, the Company has no intention of repatriating the cash in its foreign bank accounts. If the Company decides to repatriate the cash in the foreign bank accounts, it may have trouble doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds.

Investments

At September 30, 2022 and December 31, 2021, the Company's investments consisted of corporate bonds with ratings at the purchase date of A or higher and certificates of deposit. The investments at September 30, 2022 and December 31, 2021 were classified as held-to-maturity. The bonds and certificates of deposit classified as short-term investments have original maturities greater than 90 days and mature within one year. The Company's bond investments are recorded at the purchase price and carried at amortized cost.

Under ASU 2016-13, the Company classifies its held-to-maturity investment portfolio by the investment type and further classifies the corporate bonds by the bond ratings. For estimating potential credit losses, the Company considers historical loss data and bond rating, as well as current and future economic conditions.

Cash equivalents and investments were as follows at September 30, 2022 and December 31, 2021:

	September 30, 2022			December 31, 2021		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents:						
Money market funds	\$ 1,623	\$ 0	\$ 1,623	\$ 1,403	\$ 0	\$ 1,403
Total cash equivalents	<u>\$ 1,623</u>	<u>\$ 0</u>	<u>\$ 1,623</u>	<u>\$ 1,403</u>	<u>\$ 0</u>	<u>\$ 1,403</u>
Short-term investments:						
Corporate bonds	\$ 0	\$ 21,044	\$ 21,044	\$ 0	\$ 19,659	\$ 19,659
Certificates of deposit	1,103	0	1,103	2,903	0	2,903
Total short-term investments	<u>\$ 1,103</u>	<u>\$ 21,044</u>	<u>\$ 22,147</u>	<u>\$ 2,903</u>	<u>\$ 19,659</u>	<u>\$ 22,562</u>
Cash equivalents and investments - book value	<u>\$ 2,726</u>	<u>\$ 21,044</u>	<u>\$ 23,770</u>	<u>\$ 4,306</u>	<u>\$ 19,659</u>	<u>\$ 23,965</u>
Unrealized gains (losses)	<u>\$ 0</u>	<u>\$ (27)</u>	<u>\$ (27)</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ (1)</u>
Cash equivalents and investments - fair value	<u>\$ 2,726</u>	<u>\$ 21,017</u>	<u>\$ 23,743</u>	<u>\$ 4,307</u>	<u>\$ 19,657</u>	<u>\$ 23,964</u>

The Company categorizes its financial instruments within a fair value hierarchy according to accounting guidance for fair value. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 2. For the Level 1 investments, the Company uses fair value estimates based on quoted prices in active markets for identical assets or liabilities. For the Level 2 investments, the Company uses quoted prices of similar assets in active markets. The fair values in the table above reflect net unrealizable losses of \$27 at September 30, 2022, and net unrealized losses of \$1 at December 31, 2021.

6. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill during the nine months ended September 30, 2022 is as follows:

	Amount
Balance at December 31, 2021	\$ 6,334
Foreign currency translation	(556)
Balance at September 30, 2022	<u>\$ 5,778</u>

The Company performs an annual impairment test of goodwill as of the end of the first month of the fourth fiscal quarter (October 31), or at an interim date if an event occurs or if circumstances change that would indicate that an impairment loss may have been incurred. In performing the annual impairment test, the Company may consider qualitative factors that would indicate possible impairment. A quantitative fair value assessment is also performed at the reporting unit level. If the fair value exceeds the carrying value, then goodwill is not impaired, and no further testing is performed. If the carrying value exceeds the fair value, the implied fair value of goodwill is then compared against the carrying value of goodwill to determine the amount of impairment. In addition to the annual impairment test, the Company is required to regularly assess whether a triggering event has occurred which would require interim impairment testing. The Company considered the current and expected future economic and market conditions, including those related to the COVID-19 pandemic and their impact on each of the reporting units. Further, the Company assessed the current market capitalization and financial forecasts. There were no triggering events during the nine months ended September 30, 2022 or September 30, 2021. The Company will continue to monitor goodwill for impairment going forward.

Intangible Assets

The Company amortized intangible assets with finite lives on a straight-line basis over the estimated useful lives, which ranged from one to five years.

The summary of amortization expense in the condensed consolidated statement of operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	\$ 17	\$ 21	\$ 56	\$ 36
Operating expenses	63	80	201	135
Total	<u>\$ 80</u>	<u>\$ 101</u>	<u>\$ 257</u>	<u>\$ 171</u>

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

	September 30, 2022			December 31, 2021		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	\$ 17,474	\$ 17,049	\$ 425	\$ 17,609	\$ 16,978	\$ 631
Patents and technology	9,974	9,737	237	10,049	9,698	351
Trademarks and trade names	1,453	1,108	345	1,563	1,051	512
Other intangible assets	90	39	51	110	25	85
Total	<u>\$ 28,991</u>	<u>\$ 27,933</u>	<u>\$ 1,058</u>	<u>\$ 29,331</u>	<u>\$ 27,752</u>	<u>\$ 1,579</u>

In April 2021, the Company recorded \$2.0 million of finite-lived intangible assets for the acquisition of Smarteq, and during the nine months ended September 30, 2022, the Company recorded amortization expense of \$0.3 million and foreign currency translation adjustment of \$0.2 million. Prior to the acquisition of Smarteq in April 2021, the Company's intangible assets were fully amortized as of February 2020. During the three months ended September 30, 2021, the Company recorded amortization expense of \$0.1 million.

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

Intangible Assets	Assigned Life	Weighted Average Amortization Period
Customer contracts and relationships	5 years	5.0
Patents and technology	5 years	5.0
Trademarks and trade names	5 years	5.0
Other intangible assets	.5 to 5 years	3.6

The future amortization expenses are as follows:

Fiscal Year	Amount
2022 (remaining three months)	\$ 76
2023	305
2024	293
2025	288
2026	96
Thereafter	0
Total	\$ 1,058

7. Balance Sheet Information

Accounts Receivable

Accounts receivable are recorded at invoiced amounts with standard net terms that range between 30 and 90 days. The Company extends credit to its customers based on an evaluation of a customer's financial condition and collateral is generally not required. The Company records reserves for credit losses and credit allowances that reduce the value of accounts receivable to fair value.

The allowances for accounts receivable consisted of the following:

	September 30, 2022	December 31, 2021
Credit loss provision	\$ 89	\$ 26
Credit allowances	54	38
Total allowances	\$ 143	\$ 64

The Company is exposed to credit losses primarily through the sale of products. The Company's methodology for expected losses on accounts receivable uses historical collection experience, current and future economic market conditions, and a review of the current status of customers' trade accounts receivable. Due to the short-term nature of accounts receivable, the estimate of the amount of accounts receivable that may not be collected is based on aging of the account receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. The Company's allowance for credit losses was \$89 at September 30, 2022 and \$26 at December 31, 2021.

The following table summarizes the allowance for credit losses activity during the nine months ended September 30, 2022:

Balance at December 31, 2021	\$ 26
Current period expense for credit losses	63
Balance at September 30, 2022	\$ 89

Inventories

Inventories are stated at the lower of cost or net realizable value and include material, labor and overhead costs using the first-in, first-out method of costing. Inventories as of September 30, 2022 and December 31, 2021 were composed of raw materials, work-in-process

and finished goods. The Company had consigned inventory with customers of \$0.3 million and \$0.4 million at September 30, 2022 and December 31, 2021, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or net realizable value, including allowances for excess and obsolete inventory. Reserves for excess inventory are calculated based on an estimate of inventory in excess of normal and planned usage. Obsolete reserves are based on identification of inventory where the carrying value is above net realizable value. The allowance for inventory losses was \$3.1 million at September 30, 2022 and \$4.1 million at December 31, 2021.

Inventories, net consisted of the following:

	September 30, 2022	December 31, 2021
Raw materials	\$ 7,430	\$ 6,171
Work-in-process	1,275	690
Finished goods	8,025	6,830
Inventories, net	<u>\$ 16,730</u>	<u>\$ 13,691</u>

Prepaid Expenses and Other Assets

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

Property and Equipment

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

Property and equipment consisted of the following:

	September 30, 2022	December 31, 2021
Building	\$ 6,922	\$ 6,892
Computers and office equipment	10,189	10,604
Manufacturing and test equipment	14,692	16,305
Furniture and fixtures	1,446	1,455
Leasehold improvements	1,965	3,021
Motor vehicles	20	20
Total property and equipment	<u>35,234</u>	<u>38,297</u>
Less: Accumulated depreciation and amortization	<u>(26,704)</u>	<u>(28,118)</u>
Land	<u>1,770</u>	<u>1,770</u>
Property and equipment, net	<u>\$ 10,300</u>	<u>\$ 11,949</u>

Depreciation and amortization expense was approximately \$0.7 million and \$0.8 million for the three months ended September 30, 2022 and 2021, respectively. Depreciation and amortization expense was approximately \$2.2 million and \$2.3 million for the nine months ended September 30, 2022 and 2021, respectively. Amortization for finance leases is included in depreciation and amortization expense. See Note 11 for information related to finance leases.

Liabilities

Accrued liabilities consisted of the following:

	September 30, 2022	December 31, 2021
Accrued receipts	\$ 3,230	\$ 4,302
Payroll and other employee benefits	2,822	2,266
Paid time off	1,343	1,284
Right of use assets	553	537
Employee stock purchase plan	471	253
Deferred revenues	441	538
Income and sales taxes	314	415
Warranties	309	257
Customer refunds for estimated returns	301	248
Professional fees and contractors	295	233
Real estate taxes	119	156
Restructuring	0	368
Other	420	260
Total	<u>\$ 10,618</u>	<u>\$ 11,117</u>

Long-term liabilities consisted of the following:

	September 30, 2022	December 31, 2021
Operating leases	\$ 3,252	\$ 3,600
Finance leases	60	92
Deferred revenue	190	181
Other	31	126
Total	<u>\$ 3,533</u>	<u>\$ 3,999</u>

8. Stock-Based Compensation

The condensed consolidated statements of operations include \$1.1 million and \$0.4 million of stock compensation expense for the three months ended September 30, 2022 and 2021, respectively. The condensed consolidated statements of operations include \$3.0 million and \$2.0 million of stock compensation expense for the nine months ended September 30, 2022 and 2021, respectively. The Company accounts for forfeitures as they occur.

The stock-based compensation expense by type is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Service-based awards	\$ 447	\$ 341	\$ 1,150	\$ 1,435
Performance-based awards (short-term incentive plan)	346	(196)	689	0
Performance-based awards (long-term incentive plan)	278	160	949	394
Employee stock purchase plan	76	67	219	200
Total	<u>\$ 1,147</u>	<u>\$ 372</u>	<u>\$ 3,007</u>	<u>\$ 2,029</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues	\$ 61	\$ 51	\$ 156	\$ 185
Research and development	163	102	472	384
Sales and marketing	241	73	694	458
General and administrative	682	146	1,685	1,002
Total	<u>\$ 1,147</u>	<u>\$ 372</u>	<u>\$ 3,007</u>	<u>\$ 2,029</u>

The following table presents a summary of the remaining unrecognized share-based compensation expense related to outstanding share-based awards as of September 30, 2022:

Award Type	Remaining Unrecognized Compensation Expense	Weighted Average Life (Years)
Service-based awards	\$ 1,946	1.3
Performance-based awards	\$ 2,161	1.7

Service-Based Awards

Restricted Stock

The Company grants both service-based and performance-based stock awards to employees pursuant to the PCTEL, Inc. 2019 Stock Incentive Plan. When service-based restricted stock is granted, the Company records deferred stock compensation within additional paid-in capital, representing the fair value of the common stock on the date the restricted shares are granted. The Company records stock compensation expense on a straight-line basis over the vesting period of the applicable service-based restricted shares. For the annual awards granted to executives and key managers in the nine months ended September 30, 2022 and 2021, respectively, the Company awarded long-term incentives comprised of one-third service-based restricted stock and two-thirds performance-based restricted stock. The Company awarded service-based restricted stock to all other participating employees.

The following table summarizes service-based restricted stock activity for the nine months ended September 30, 2022:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Awards - December 31, 2021	326,336	\$ 7.76
Shares awarded	233,744	4.66
Shares vested	(166,473)	7.30
Shares cancelled	(3,285)	5.85
Unvested Restricted Stock Awards - September 30, 2022	<u>390,322</u>	<u>\$ 6.12</u>

The intrinsic value of service-based restricted shares that vested during the nine months ended September 30, 2022 and 2021 was \$0.8 million and \$2.2 million, respectively.

Restricted Stock Units

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

The following table summarizes the restricted stock unit activity during the nine months ended September 30, 2022:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Units - December 31, 2021	21,437	\$ 7.23
Units awarded	26,667	4.40
Units vested/Shares awarded	(4,501)	7.33
Units cancelled	(2,000)	6.98
Unvested Restricted Stock Units - September 30, 2022	41,603	\$ 5.42

The intrinsic value of service-based restricted stock units that vested and were issued as shares during the nine months ended September 30, 2022 and 2021 was \$21 and \$42, respectively.

Stock Options

The Company may grant employees stock options to purchase common stock. The Company issues stock options with exercise prices no less than the fair value of the Company's stock on the grant date. Employee stock options are subject to installment vesting. Stock options may be exercised at any time prior to their expiration date or within 180 days of termination of employment, or such shorter time as may be provided in the related stock option agreement. The stock options outstanding at September 30, 2022 have a seven-year life. There was no activity related to stock options during the third quarter of 2022.

The following table summarizes information about stock options outstanding under all stock option plans at September 30, 2022:

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding	Weighted Average Contractual Life (Years)	Intrinsic Value	Weighted Average Exercise Price	Number Exercisable	Weighted Average Contractual Life (Years)	Intrinsic Value	Weighted Average Exercise Price
\$ 5.06 - \$ 6.98	4,000	1.67	\$ 0	\$ 6.02	4,000	1.67	\$ 0	\$ 6.02

The intrinsic value is based on the share price of \$4.72 on September 30, 2022.

For outstanding employee stock options, the Company calculated the fair value of each stock option on the date of grant using the Black-Scholes option-pricing model. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models may not necessarily provide a reliable single measure of the fair value of the employee stock options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life.

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

Performance-Based Equity Awards

Short-Term Incentive Plan

The Company granted short-term incentive awards to executives, key managers, and non-sales employees under the Company's 2022 Short-Term Incentive Plan ("STIP") based on upon achievement of specifically identified corporate annual 2022 adjusted EBITDA and revenue goals. The 2022 STIP awards, like the 2021 STIP awards, will be paid 50% in cash and 50% in the Company's stock. In the first quarter 2022, the Board of Directors exercised its discretion to approve bonus awards. The first quarter 2022 bonus was equal to those payable for achievement of the 2021 STIP adjusted EBITDA goal at the threshold level. No awards were received by 2021 STIP participants with respect to the revenue goal. These payments were made during the first quarter 2022, 50% in the Company's common stock for a total of \$0.3 million and 50% in cash for executives and key managers and 100% in cash for all other participants.

Long-Term Incentive Plan

The Company grants performance-based awards to executives and key managers to encourage sustainable growth, consistent earnings, and management retention. Based on the fair value of the shares on the grant date, the Company records stock compensation expense over the performance period based on the estimated achievement of the award.

The following table summarizes the performance award activity:

	Awards at Target	Weighted Average Fair Value
Unvested Performance Awards - December 31, 2021	333,153	\$ 8.44
Awards granted	269,618	4.84
Awards cancelled	(18,800)	8.01
Unvested Performance Awards - September 30, 2022	583,971	\$ 6.79

The Company granted performance awards under its long-term incentive plan to executives and key managers in February 2022 ("2022 LTIP"). The performance period for the 2022 LTIP is from January 1, 2022 through December 31, 2024. At target, the total fair market value of the award was \$1.3 million based on the average share price of \$4.84 on the grant date. On the award date, the aggregate number of shares that could be earned at target was 269,618 and the maximum number of aggregate shares that could be earned was 471,832.

Under the 2022 LTIP and similar plans from 2021 and 2020, shares of the Company's stock can be earned based on achievement of a three-year revenue growth target with a penalty if a certain Adjusted EBITDA level is not maintained. If the Company achieves less than the target growth over the performance period, the participant will receive fewer shares than the target award, determined on a straight-line basis. If the Company achieves greater than the target growth, the participant will receive more shares than the target award on an accelerated basis. Participants are required to be in service at the determination date of the award following the end of the performance period in order to receive the award. Shares earned will be fully vested shares. The Company records stock compensation expense over the performance period based on the Company's estimate of the aggregate number of shares that will be earned under the incentive plan.

The following table summarizes the active performance-based long-term incentive plans at September 30, 2022:

LTIP award	Share Price on Grant Date	Number of Shares That Could Be Earned:		Performance Period
		Target	Maximum	
2020 LTIP	\$ 8.70	135,889	237,806	January 1, 2020 through December 31, 2022
2021 LTIP	\$ 8.25	179,797	314,645	January 1, 2021 through December 31, 2023
2022 LTIP	\$ 4.84	268,285	469,499	January 1, 2022 through December 31, 2024
		583,971	1,021,950	

Employee Stock Purchase Plan ("ESPP")

The ESPP enables eligible employees to purchase common stock at the lower of 85% of the fair market value of the common stock on the first or last day of each offering period. Each offering period is approximately six months.

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

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

	Employee Stock Purchase Plan	
	2022	2021
Dividend yield	4.7 %	3.1 %
Risk-free interest rate	1.7 %	0.1 %
Expected volatility	48 %	48 %
Expected life (in years)	0.5	0.5

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

Board of Director Equity Awards

The Company grants equity awards to members of its Board of Directors as an annual retainer and for committee service. These awards are shares of the Company's stock that vest one year after issuance. In addition, new directors receive a one-time grant that vests over three years. In May 2022, the Company issued 120,768 shares to directors for their annual retainer and committee services. In July 2022, in conjunction with the changes in the directors serving as Chairman of the Board and the Audit Committee Chair positions, an additional 4,033 shares were issued and 4,105 shares were cancelled. The fair value of the service-based restricted shares for directors that vested during the nine months ended September 30, 2022 was \$47.

The following table summarizes the director awards activity:

	Shares	Weighted Average Fair Value
Outstanding - December 31, 2021	11,534	\$ 6.57
Shares awarded	124,801	4.02
Shares vested	(11,534)	6.57
Shares cancelled	(4,105)	4.02
Outstanding - September 30, 2022	120,696	\$ 4.02

Employee Withholding Taxes on Stock Awards

For ease in administering the issuance of stock awards, the Company withholds shares of vested restricted stock awards, stock option exercises and short-term and long-term incentive plan stock awards for taxes. The Company withholds the number of shares it computes as having the value of the relevant withholding tax and remits the tax payment to the appropriate tax authority. For withholding taxes related to stock awards, the Company paid \$0.4 million and \$0.8 million during the nine months ended September 30, 2022 and 2021, respectively.

9. Benefit Plans

Employee Benefit Plans

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

The Company's contributions to retirement plans during the three and nine months ended September 30, 2022 and 2021, respectively, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
PCTEL, Inc. 401(k) profit sharing plan - US employees	\$ 187	\$ 184	\$ 593	\$ 540
Defined contribution plans - Foreign employees	55	115	190	322
Total	\$ 242	\$ 299	\$ 783	\$ 862

10. Commitments and Contingencies

Tianjin Manufacturing Restructuring

Due to uncertainties with its Tianjin facility lease and to optimize the cost structure of the antenna product line and create flexibility in antenna manufacturing, the Company initiated a restructuring plan in 2019 to transition manufacturing from its Tianjin, China facility

primarily to contract manufacturers in China. The Company substantially completed the transition in the first quarter 2022. For the nine months ended September 30, 2022, the Company incurred restructuring expenses of \$1.3 million, including \$1.2 million for employee severance and benefits related to the separation of 78 employees and \$0.1 million related to fixed assets and facilities. Severance costs were paid from the Company's cash in its China bank accounts. When the facility transition was completed in April 2022, the Company vacated the Tianjin manufacturing facility and relocated a small team of employees associated with sourcing, quality, and local customer support in a new leased facility in Tianjin, China. See Note 11 for additional information on the Tianjin lease.

Beijing Restructuring

As a cost saving initiative, the Company separated 14 employees from its Beijing office in November 2021. The terminated positions were primarily related to antenna engineering and sales support. The Company incurred restructuring expenses of \$0.8 million consisting of employee severance and related employee benefits and for professional fees associated with employee separations. The Company engaged four former Beijing employees through a third-party employment agency to provide sales and engineering support. In January 2022, the Company paid \$0.4 million related to severance benefits accrued at December 31, 2021.

The following table summarizes the restructuring activity and the status of the reserves during the nine months ended September 30, 2022:

	Tianjin Manufacturing	Beijing	Total
Balance at December 31, 2021	\$ 0	\$ 368	\$ 368
Restructuring expense	1,309	0	1,309
Payments made	(1,309)	(368)	(1,677)
Balance at September 30, 2022	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The restructuring liability at December 31, 2021 is recorded in accrued liabilities on the accompanying condensed consolidated balance sheet.

Warranty Reserve and Sales Returns

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company accrues for product returns based on historical sales and return trends. The refund liability related to estimated sales returns was \$0.3 million and \$0.2 million at September 30, 2022 and December 31, 2021, respectively, and is included within accrued liabilities on the accompanying condensed consolidated balance sheets.

The Company offers repair and replacement warranties of up to five years for certain antenna products and test & measurement products. The Company's warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was \$0.3 million at September 30, 2022 and 2021, respectively, and is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

The following table summarizes the warranty activity during the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,	
	2022	2021
Beginning balance	\$ 257	\$ 285
Provisions for warranties	162	64
Consumption of reserves	(110)	(77)
Ending balance	<u>\$ 309</u>	<u>\$ 272</u>

11. Leases

The Company has operating leases for facilities and finance leases for office equipment. Leases with an initial term of 12 months or less are not recorded in the balance sheet. The Company determines if an arrangement is a lease at inception of a contract.

Right of Use ("ROU") assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term is deemed to include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU assets also include any advance lease payments made and exclude lease incentives. As most of the Company's operating leases do not provide an implicit

rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments on a collateralized basis. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

The Company's lease cost for the three and nine months ended September 30, 2022 and 2021, respectively, included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease costs	\$ 119	\$ 121	\$ 377	\$ 333
Short-term lease costs	10	41	60	123
Variable lease costs	2	5	4	9
Amortization of finance lease assets	12	18	47	53
Interest on finance lease liabilities	1	2	4	6
Total lease cost	<u>\$ 144</u>	<u>\$ 187</u>	<u>\$ 492</u>	<u>\$ 524</u>

The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases recorded on the balance sheet as of September 30, 2022:

Year	Operating Leases	Finance Leases
2022 (remaining three months)	\$ 131	\$ 13
2023	668	44
2024	591	33
2025	501	15
2026	494	5
Thereafter	2,180	0
Total minimum payments required	4,565	110
Less: amount representing interest	(804)	(6)
Present value of net minimum lease payments	3,761	104
Less: current maturities of lease obligations	(509)	(44)
Long-term lease obligations	<u>\$ 3,252</u>	<u>\$ 60</u>

The weighted average remaining lease terms and discount rates for all the Company's operating and finance leases were as follows as of September 30, 2022:

	September 30, 2022
Weighted-average remaining lease term - finance leases	2.7 years
Weighted-average remaining lease term - operating leases	7.8 years
Weighted-average discount rate - finance leases	4.0%
Weighted-average discount rate - operating leases	5.0%

The table below presents supplemental cash flow information related to leases during the three and nine months ended September 30, 2022 and 2021, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	\$ 167	\$ 160	\$ 553	\$ 413
Operating cash flows for finance leases	\$ 1	\$ 2	\$ 4	\$ 6
Financing cash flows for finance leases	\$ 11	\$ 25	\$ 48	\$ 54

The following table summarizes the classification of ROU assets and lease liabilities as of September 30, 2022 and December 31, 2021:

Leases	Consolidated Balance Sheet Classification	September 30, 2022	December 31, 2021
Assets:			
Operating right-of-use assets	Other noncurrent assets	\$ 2,092	\$ 2,289
Finance right-of-use assets	Other noncurrent assets	99	148
Total leased assets		<u>\$ 2,191</u>	<u>\$ 2,437</u>
Liabilities:			
Current			
Operating lease liabilities	Accrued liabilities	\$ 509	\$ 475
Finance lease liabilities	Accrued liabilities	44	62
Noncurrent			
Operating lease liabilities	Long-term liabilities	3,252	3,600
Finance lease liabilities	Long-term liabilities	60	92
Total lease liabilities		<u>\$ 3,865</u>	<u>\$ 4,229</u>

The Company completed the transition of antenna manufacturing from its Tianjin, China facility to contract manufacturers during 2022. In April 2022, the Company vacated the manufacturing facility and moved a small team of employees associated with sourcing, quality, and local customer support to a new leased facility in Tianjin, China. The Company entered into a two-year lease ending December 31, 2023 for 1,694 square feet of space in a new office located in Tianjin, China. The Company recognized a present value of the right of use asset of \$0.1 million for this new office lease.

As a cost saving initiative, the Company separated all 14 employees from its Beijing office in November 2021 and the Company closed this office in the first quarter of 2022. In April 2022, the Company entered into a two-year office lease ending April 30, 2024 for 350 square feet of office space. The Company recognized a present value of the right of use asset of \$0.1 for this new office lease. Four former employees in Beijing were engaged through a third-party employment agency and will provide sales and technical support from the new smaller office.

As part of the acquisition of Smarteq on April 30, 2021, the Company assumed an office lease and two automotive leases. The office in Kista, Sweden has 4,080 square feet used for engineering, sales, and administration with a lease term ending July 31, 2023. On the acquisition date, the Company recorded \$0.2 million for each of the ROU assets and the lease liabilities. In October 2022, the office lease was extended for 36 months ending July 31, 2026.

12. Borrowings

As part of the Smarteq acquisition, the Company assumed a five-year euro-denominated loan of approximately \$0.1 million with an interest rate of 0.57% and originally due in monthly installments from June 2022 until May 2026. The loan was part of a program from the French Ministry of Economy and Finance as financial support for French businesses during the COVID-19 pandemic. In September 2022, the Company repaid the principal and interest due on the loan.

13. Income Taxes

The Company recorded an income tax benefit of \$0.4 million for the nine months ended September 30, 2022, and income tax expense of \$17 for the nine months ended September 30, 2021. The income tax benefit recorded for the nine months ended September 30, 2022 differs from the statutory rate primarily because it reflects a \$0.4 million benefit related to a partial reversal of the valuation allowance, established in connection with the acquisition of Smarteq, for Swedish deferred tax assets. The expense recorded for the nine months ended September 30, 2021 differed from the Federal statutory rate of 21% primarily because the Company maintains a full valuation allowance on its deferred tax assets in all jurisdictions.

The Company's valuation allowances are due to uncertainty regarding the utilization of the deferred tax assets. The Company had deferred tax assets net of deferred tax liabilities of \$14.6 million at September 30, 2022 and \$15.3 million at December 31, 2021. By jurisdiction at September 30, 2022, \$11.9 million was associated with the U.S., \$1.1 million was associated with China, and \$1.6 million was associated with Sweden. The Company's gross deferred tax assets consist of federal and state net operating losses ("NOLs"), credits, and timing differences. On a regular basis, the Company evaluates the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. The Company considers multiple factors in its evaluation of the need for a valuation allowance.

The Company's federal NOLs generated in 2018 and later periods will not expire, but the Company's NOLs generated through December 31, 2017 have a finite life primarily based on the 20-year carry forward of federal net operating losses. The timing differences have a ratable reversal pattern over 12 years. The Company has met its projections in 2022, but did not meet its projections in 2020 or 2021. While the Company believes its financial outlook remains positive, the Company's performance versus its projections in both of

the prior two years is considered significant negative evidence that is difficult to overcome on a “more likely than not” standard in the current year through objectively verifiable data. Under the accounting standards, objective verifiable evidence has greater weight than subjective evidence such as the Company’s projections for future growth. In addition, the Company faces uncertainties from recent macroeconomic trends, including inflationary pressures, the economic downturn and the potential for a recession. As a result of all these factors, the Company maintained a full valuation allowance on its U.S. deferred tax assets at September 30, 2022.

The pre-tax profits for the Sweden jurisdiction were positive in 2021 and have increased in 2022 due to higher revenues and profit margins. With revenue from new and existing customers, the revenue and profit forecast has increased for 2023. The Company considers the three-year cumulative income in the Sweden jurisdiction and the fact that the Company exceeded its projections associated with the Sweden jurisdiction for 2021 and 2022 as positive evidence of the ability to utilize a portion of its deferred tax assets. Thus, the Company recorded a partial reversal of the valuation allowance for the deferred tax assets associated with the Sweden jurisdiction.

Until an appropriate level of profitability is attained, the Company expects to maintain a full valuation allowance on its U.S. and China net deferred tax assets and a partial valuation allowance on its Sweden net deferred tax assets. Any U.S. or Chinese tax benefits or tax expense recorded on its consolidated statements of operations will be offset with a corresponding valuation allowance until such time that the Company changes its determination related to the realization of deferred tax assets. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such a determination is made.

The analysis that the Company prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance.

The Company files a consolidated federal income tax return, income tax returns with various states, and foreign income tax returns in various foreign jurisdictions. The Company’s U.S. federal tax returns remain subject to examination for 2018 and subsequent periods. The Company’s U.S. state tax returns remain subject to examination for 2017 and subsequent periods. The Company’s foreign tax returns remain subject to examination for 2011 and subsequent periods. The Company’s gross unrecognized tax benefit was \$0.8 million at September 30, 2022 and December 31, 2021.

On March 27, 2020, the “Coronavirus Aid, Relief and Economic Security Act” (CARES Act) was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Under the CARES Act, the Company deferred the employer portion of social security taxes and applied for a refund of its Alternative Minimum Tax credit. As of September 30, 2022, the Company had deferred \$0.2 million of payroll taxes which will be paid by December 31, 2022.

14. Product Line and Geographic Information

Product Line Information:

The following tables are the product line revenues and gross profits for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30, 2022			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 18,653	\$ 7,683	\$ (348)	\$ 25,988
Gross Profit	\$ 6,562	\$ 5,544	\$ (170)	\$ 11,936
Gross Profit %	35.2 %	72.2 %	NA	45.9 %

	Nine Months Ended September 30, 2022			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 53,310	\$ 20,698	\$ (502)	\$ 73,506
Gross Profit	\$ 17,435	\$ 15,466	\$ (205)	\$ 32,696
Gross Profit %	32.7 %	74.7 %	NA	44.5 %

	Three Months Ended September 30, 2021			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 16,686	\$ 5,921	\$ (196)	\$ 22,411
Gross Profit	\$ 5,655	\$ 4,635	\$ (36)	\$ 10,254
Gross Profit %	33.9 %	78.3 %	NA	45.8 %

	Nine Months Ended September 30, 2021			
	Antennas & Industrial IoT Devices	Test & Measurement Products	Corporate	Total
Revenues	\$ 43,971	\$ 18,540	\$ (712)	\$ 61,799
Gross Profit	\$ 14,578	\$ 14,057	\$ (102)	\$ 28,533
Gross Profit %	33.2 %	75.8 %	NA	46.2 %

Geographic Information:

The Company's revenue from customers by geographic location, as a percent of total revenues for the three and nine months ended September 30, 2022 and 2021, is as follows:

Region	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Europe, Middle East & Africa	20%	23%	21%	23%
Asia Pacific	7%	9%	6%	8%
Other Americas	3%	3%	3%	4%
Total Foreign sales	30%	35%	30%	35%

Customer Concentration:

The following table represents the customers that accounted for 10% or more of revenues during the three and nine months ended September 30, 2022 and 2021:

Revenues	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Customer C	18%	5%	15%	8%
Customer A	11%	2%	9%	4%

The following table represents the customers that accounted for 10% or more of total trade accounts receivable:

Trade Accounts Receivable	September 30, 2022	December 31, 2021
Customer A	27%	5%
Customer C	9%	9%

15. Revenue from Contracts with Customers

Under Topic 606, a contract with a customer is an agreement that both parties have approved, that creates enforceable rights and obligations, has commercial substance, and specified payment terms, and for which collectability is probable. Once the Company has entered into a contract, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized as control of promised goods or services transfers to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The amount of revenue recognized takes into account variable consideration, such as

returns and volume rebates. A majority of the Company's revenue is short cycle in nature with shipments within one year from order. The Company's payment terms generally range between 30 to 90 days.

All of the Company's revenue relates to contracts with customers. The Company's accounting contracts are from purchase orders or purchase orders combined with purchase agreements. The majority of the Company's revenue is recognized on a "point-in-time" basis and a nominal amount of revenue is recognized "over time". For the sale of antenna products and test & measurement products, the Company satisfies its performance obligations generally at the time of shipment or upon delivery based on the contractual terms with its customers. For products shipped on consignment, the Company recognizes revenue upon delivery from the consignment location. For its test & measurement software tools, the Company has a performance obligation to provide software maintenance and support for one year. The Company recognizes revenues for the maintenance and support over this period.

The Company considers shipping and handling performed by the Company as fulfillment activities. Amounts billed for shipping and handling are included in revenues, while costs incurred for shipping and handling are included in cost of revenues. The Company excludes taxes from the transaction price. Cost of contracts include sales commissions. The Company expenses the cost of contracts when incurred because the amortization period is one year or less.

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company estimates product returns based on historical sales and return trends and records a corresponding refund liability. The refund liability was \$0.3 million and \$0.2 million at September 30, 2022 and December 31, 2021, respectively, and is included within accrued liabilities in the accompanying condensed consolidated balance sheets. The Company records an asset based on historical experience for the amount of product it expects to return to inventory as a result of customer returns, which is recorded in inventories in the accompanying condensed consolidated balance sheets. The product return asset was \$0.1 million at September 30, 2022 and December 31, 2021.

There were no contract assets at September 30, 2022 or December 31, 2021. The Company records contract liabilities for deferred revenue and customer prepayments. Contract liabilities are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets. The contract liability was \$0.7 million and \$0.9 million at September 30, 2022 and December 31, 2021, respectively. The Company recognized revenue of \$1.2 million and \$0.7 million during the nine months ended September 30, 2022 and 2021, respectively, related to contract liabilities that existed at the beginning of the period.

16. Subsequent Events

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

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements of PCTEL, Inc. ("PCTEL," the "Company," "we," "our," and "us") and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the consolidated financial statements for the year ended December 31, 2021 contained in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"). This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In some cases, you can identify these forward-looking statements by words such as "may," "will," "plans," "seeks," "expects," "anticipates," "intends," "believes" and words of similar meaning. Investors in our common stock are cautioned not to place undue reliance on these forward-looking statements. Specifically, these statements include, but are not limited to, statements concerning our future financial performance; growth of our antennas and Industrial IoT business and our test and measurement business; the impact of the acquisition of Smarteq on the Company's ability to offer additional products, expand in the European market and through distribution channels, and generate revenue; the impact of our transition plan for manufacturing inside and outside China; the impact of the COVID-19 pandemic and the ensuing supply chain disruptions; the impact of geopolitical conditions, including the ongoing conflict in Ukraine and related sanctions, disruption in petroleum and other markets; inflation, economic weakness, and potential recession; and the anticipated demand for certain products, including those related to public safety, Industrial IoT, 5G (e.g., the Gflex scanning receiver), agriculture and intelligent transportation. These statements are based on management's current expectations and actual results may differ materially from those projected as a result of certain risks and uncertainties. Important factors that could cause such differences include, but are not limited to, the impact of adverse and uncertain economic and political conditions in the U.S. and international market, including inflationary pressures, economic downturn, and the potential for a recession; inflation and increases in product and material costs; competition within the wireless product industry; volatility and delays in customer demand caused by the COVID-19 pandemic and/or the war in Ukraine, or the economic slowdown; the impact of uncertainty in our supply chain, as well as labor shortages and shipping delays and disruptions; our ability to accurately forecast demand for our products; our ability to successfully integrate Smarteq and any future acquisitions into our existing operations; the impact of uncertainty as a result of doing business in China and Europe; the impact of tariffs on certain imports from China; delays in our sales cycles resulting in the cancellation of purchases of our products; macroeconomic conditions, including inflation and increased in product and material costs; and our ability to grow our business and create, protect and implement new technologies and solutions. These and other risks and uncertainties are detailed in our filings with the Securities and Exchange Commission ("SEC"). These forward-looking statements are made only as of the date hereof. We do not undertake, and expressly disclaim, any obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as may be required by applicable law. Investors should carefully review the information contained in Item 1A Risk Factors.

Business Overview

PCTEL is a leading global provider of wireless technology, including purpose-built Industrial Internet of Things ("IoT") devices, antennas, and test & measurement products. We solve complex wireless challenges to help organizations stay connected, transform, and grow. We have a strong brand presence and expertise in radio frequency ("RF"), digital and mechanical engineering. We have two businesses (antennas/Industrial IoT devices and test & measurement products) that address three market segments: Enterprise Wireless, Intelligent Transportation, and Industrial IoT. Our antennas and Industrial IoT devices include antennas deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for Industrial IoT. Our test & measurement products improve the performance of wireless networks globally. Mobile operators, neutral hosts, and network equipment manufacturers rely on our products to analyze, design, and optimize next generation wireless networks. We seek out product applications that command a premium for product design and performance, and we avoid commodity markets. Our strength is solving complex wireless challenges for our customers through our products and solutions. To this end, we are constantly innovating and improving antenna and wireless testing products and capabilities to capture the opportunities of the rapidly evolving wireless industry. We focus on engineering, research, and development to maintain and expand our competitiveness.

Antennas and Industrial IoT devices

PCTEL designs and manufactures precision antennas and Industrial IoT devices, and we offer in-house wireless product development for our customers, including design, testing, radio integration, and manufacturing capabilities. Market opportunities for this product line are driven by the increased use and complexity of wireless communications.

Our antenna portfolio includes Wi-Fi, Bluetooth, Land Mobile Radio ("LMR"), Tetra, Global Navigation Satellite System ("GNSS"), Cellular, Industrial, Scientific, and Medical ("ISM"), Long Range ("LoRa"), and combination antenna solutions. The market applications for our antennas include public safety communications, military communications, utilities & energy, precision agriculture, smart traffic management, Electric Vehicle ("EV") charging stations, embedded vehicles, forestry machinery & off-road vehicles. For smart traffic management, we provide antenna systems for smart roadways and smart rail. Fleet antennas for public safety, including

police vehicles, are a key market. We not only manufacture the antennas, but we also provide engineering design services to determine the layout of multi-antenna installations to minimize potential interference between each antenna element. Our customized solutions often result in general purpose products with advance capabilities, such as multi-element antenna systems in a single radome. These systems can include several LTE bands, Wi-Fi bands and GPS navigation elements, all in one housing. An antenna designed for one application can be modified to be used for other applications.

Our Industrial IoT device portfolio includes access points, radio modules, sensor communication modules, and wireless communication sensors. The market applications for our Industrial IoT devices include utilities and smart grid, oil and gas, manufacturing, logistics, industrial automation, smart metering, and asset tracking.

Our strategy is to provide a “toolbox” of hardware solutions to our existing OEMs and distributors for Industrial IoT systems. We provide all of the field hardware required for wireless Industrial IoT systems - antennas, ruggedized Wi-Fi access points, radio modules, and integrated cellular sensors for Industrial IoT. Our go-to-market strategy for this sector is to sell more RF hardware components to our customers that traditionally purchase antennas from PCTEL.

Test & Measurement Products

PCTEL provides RF test & measurement products that improve the performance of wireless networks globally, with a focus on LTE, public safety, and 5G technologies. Market opportunities for this product line are driven by the implementation and roll out of new wireless technology standards (i.e., 3G to 4G, 4G to 5G) and new market applications for public safety and government. The market applications for our test & measurement equipment includes cellular testing, public safety and private radio network testing, federal government communications testing, and indoor building network testing. Our portfolio includes scanning receivers, scanning receiver software, public safety solutions, interference location systems, mmwave transmitters, and a cloud-based reporting platform.

Our scanning receivers are software defined radios used to 1) confirm adequate RF coverage during deployment, 2) identify interfering signals which decrease capacity, 3) troubleshoot system performance issues as networks expand, and 4) benchmark competing networks because our scanning receivers can scan all technologies across all frequencies during one test. They are necessary for initial network deployment and throughout the entire life cycle of the mobile network. Most of our 4G scanners can be upgraded to 5G via firmware. Our new Gflex scanning receiver includes advanced features to address 5G and broader critical communication and government applications such as signal intelligence.

We provide test & measurement equipment to test in-building communication capability important for first responders and to certify buildings meet certain in-building wireless communication standards. We provide test & measurement equipment to test public safety networks, including P25, Tetra and digital mobile radio (“DMR”).

Our cloud-based reporting platform for public safety is a subscription-based service for test management, storage and analytics that allows stakeholders, including engineering service companies, building owners and government jurisdictions, to easily manage the data collection process and access final reports through an online map-based interface.

Consistent with our mission to solve complex network engineering problems and to compete effectively in the RF test & measurement market, we maintain expertise in the following areas: RF engineering, digital signal processing (“DSP”) engineering, wireless network engineering, mechanical engineering, manufacturing, and product quality and testing. Competitors for our test & measurement products include OEMs such as Anritsu, Berkley Varitronics, Digital Receiver Technology, Rohde and Schwarz, and Viavi.

COVID-19 Update

The COVID-19 pandemic and associated counter-acting measures implemented by governments and businesses around the world, as well as subsequent recoveries in global business activity, continue to contribute uncertainty in the global business environment and has led to supply chain disruptions and shortages in global markets for commodities, logistics and labor, and as well as increased inflationary pressures. Currently our expectation is that the impact of cost inflation, including as well as supplier component input availability will continue throughout 2022.

We continue to closely monitor the risks posed by COVID-19 and the guidance from relevant authorities. We adjust our health and safety protocols and practices accordingly, as we have throughout the pandemic. We will also continue to proactively respond to the situation and may take further actions that alter our business activity as may be required by governmental authorities or that we determine are in the best interests of our employees and operations.

Third Quarter Overview

Revenues for the three months ended September 30, 2022 were \$26.0 million, an increase of 16.0% compared to \$22.4 million for the same period in 2021. By product line, revenues increased by \$1.8 million (29.8%) to \$7.7 million for test & measurement products and increased by \$2.0 million (11.8%) to \$18.6 million for antennas and Industrial IoT devices. The increase in revenues for antennas and

Industrial IoT devices was primarily due to higher revenues with antennas for fleet applications and a full quarter of revenues related to sales of Smarteq products. Gross profits of \$11.9 million for the quarter increased by \$1.7 million (16.4%) compared to the same period in 2021, primarily due to the revenue increases for both product lines. Operating expense of \$10.6 million was \$1.0 million higher (10.7%) than in the third quarter 2021. The increase in operating expense is from higher incentive compensation expenses, travel and marketing expenses. The net impact of these changes resulted in income before tax of \$1.5 million for the third quarter of 2022 compared to the income before tax of \$0.7 million in the third quarter 2021.

Revenues for the nine months ended September 30, 2022 were \$73.5 million, an increase of 18.9% compared to \$61.8 million for the same period in 2021. By product line, revenues increased by \$2.2 million (11.6%) to \$20.7 million for test & measurement products and increased by \$9.3 million (21.2%) to \$53.3 million for antennas and Industrial IoT devices. The increase in revenues for test & measurement products was driven by growth in products for public safety applications. The increase in revenues for antennas and Industrial IoT devices was primarily due to revenues for fleet applications and from the inclusion of nine months of revenues related to the acquisition of Smarteq. Gross profits of \$32.7 million increased by \$4.2 million (14.6%) compared to the same period in the prior year due to the higher revenues in both product lines. Operating expense of \$32.6 million was \$3.9 million higher (13.7%) than the same period in the prior year. The increase results from additional restructuring expenses of \$1.3 million, higher incentive compensation expenses, travel and marketing expenses, as well as inclusion of nine months of Smarteq's operating expenses. The net impact of these changes resulted in an increase in our income before tax of \$0.6 million and an increase to net income of \$1.0 million for the nine months ended September 30, 2022 compared to the same period in 2021.

Our cash and investments decreased by \$0.3 million during the third quarter 2022 as we generated free cash flow of \$1.0 million and paid our quarterly dividend of \$1.0 million. As of September 30, 2022, we had cash and investments of \$28.0 million and no debt.

Smarteq Acquisition

On April 30, 2021, we acquired all the outstanding stock of Smarteq Wireless Aktiebolag, a Swedish company based in Kista, Sweden that designs antennas for specialized Industrial IoT and vehicular applications, pursuant to a Share Sale and Purchase Agreement between PCTEL and Allgon Aktiebolag, a Swedish company and holder of the outstanding stock of Smarteq (the "Agreement"). PCTEL paid cash consideration of SEK 56.8 million (\$6.8 million) at the close of the transaction, all of which was provided from PCTEL's existing cash. We believe the acquisition of Smarteq provides us with a strong local presence, expertise for our antenna product line, and channel partners to accelerate our growth in Europe, as well as a complementary portfolio of products for our Industrial IoT and intelligent transportation customers worldwide. The results for Smarteq are combined with the Company's antenna and Industrial IoT devices product line.

Results of Operations

Three and Nine Months Ended September 30, 2022 and 2021
(in thousands)

Revenues by Product Line

	2022	Three Months Ended September 30,		% Change
		2021	\$ Change	
Antennas & Industrial IoT Devices	\$ 18,653	\$ 16,686	\$ 1,967	11.8 %
Test & Measurement Products	7,683	5,921	1,762	29.8 %
Corporate	(348)	(196)	(152)	not meaningful
Total	<u>\$ 25,988</u>	<u>\$ 22,411</u>	<u>\$ 3,577</u>	<u>16.0 %</u>

	2022	Nine Months Ended September 30,		% Change
		2021	\$ Change	
Antennas & Industrial IoT Devices	\$ 53,310	\$ 43,971	\$ 9,339	21.2 %
Test & Measurement Products	20,698	18,540	2,158	11.6 %
Corporate	(502)	(712)	210	not meaningful
Total	<u>\$ 73,506</u>	<u>\$ 61,799</u>	<u>\$ 11,707</u>	<u>18.9 %</u>

Revenues increased 16.0% for the three months ended September 30, 2022 compared to the same period in 2021 due to higher revenues for both i) antennas and Industrial IoT devices and ii) the test & measurement product lines. Revenues for the test & measurement product line increased 29.8% for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 due to higher revenues in the U.S. for scanning receivers with 5G technologies. For the three months ended September 30, 2022, revenues increased for the antenna product line by 11.8% compared to the same period in 2021 due to higher revenues from fleet applications in the agriculture market.

Revenues increased 18.9% for the nine months ended September 30, 2022 compared to the same period in 2021 due to higher revenues for both i) antennas and Industrial IoT devices and ii) test & measurement products. For the nine months ended September 30, 2022, revenues increased for antennas and Industrial IoT devices by 21.2% compared to the same period in 2021 due to higher revenues of antennas for fleet applications for agriculture and inclusion of nine months of revenues from the Smarteq. Revenues for the test & measurement product line increased 11.6% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 due to higher revenues in the U.S. for scanning receivers with 5G technologies.

Gross Profit by Product Line

	2022	Three Months Ended September 30,		% of Revenues
		% of Revenues	2021	% of Revenues
Antennas & Industrial IoT Devices	\$ 6,562	35.2 %	\$ 5,655	33.9 %
Test & Measurement Products	5,544	72.2 %	4,635	78.3 %
Corporate	(170)	not meaningful	(36)	not meaningful
Total	<u>\$ 11,936</u>	<u>45.9 %</u>	<u>\$ 10,254</u>	<u>45.8 %</u>

	2022	Nine Months Ended September 30,		% of Revenues
		% of Revenues	2021	% of Revenues
Antennas & Industrial IoT Devices	\$ 17,435	32.7 %	\$ 14,578	33.2 %
Test & Measurement Products	\$ 15,466	74.7 %	\$ 14,057	75.8 %
Corporate	\$ (205)	not meaningful	\$ (102)	not meaningful
Total	<u>\$ 32,696</u>	<u>44.5 %</u>	<u>\$ 28,533</u>	<u>46.2 %</u>

The gross profit percentage for the three months ended September 30, 2022 was approximately the same as in the same period in 2021. The gross profit percentage for the antennas and Industrial IoT devices increased by 1.3% for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to lower freight costs. The gross margin percentage for test & measurement products was lower by 6.1% in the third quarter 2022 compared to the prior year primarily due to product mix but also from higher component costs.

The gross profit percentage decreased by 1.7% for the nine months ended September 30, 2022 compared to the same period in 2021 due to a higher mix of antennas and IoT devices and due to lower gross margin percentages for both product lines. The gross profit percentage for antennas and Industrial IoT devices was lower by 0.5% for the nine months ended September 30, 2022 compared to the same period in 2021 due to product mix and higher logistics costs. The gross profit percentage for test & measurement products decreased by 1.1% for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to product mix.

Consolidated Operating Expenses

	Three Months Ended September 30, 2022	Change	Three Months Ended September 30, 2021	% of Revenues	
				2022	2021
Research and development	\$ 3,178	\$ (160)	\$ 3,338	12.2 %	14.9 %
Sales and marketing	3,600	253	3,347	13.9 %	14.9 %
General and administrative	3,705	888	2,817	14.3 %	12.6 %
Amortization of intangible assets	63	(17)	80	0.2 %	0.4 %
Restructuring expenses	57	58	(1)	0.2 %	0.0 %
Total	<u>\$ 10,603</u>	<u>\$ 1,022</u>	<u>\$ 9,581</u>	<u>40.8 %</u>	<u>42.8 %</u>

	Nine Months Ended September 30, 2022	Change	Nine Months Ended September 30, 2021	% of Revenues	
				2022	2021
Research and development	\$ 9,784	\$ 30	\$ 9,754	13.3 %	15.8 %
Sales and marketing	10,910	1,413	9,497	14.8 %	15.4 %
General and administrative	10,399	1,171	9,228	14.1 %	14.9 %
Amortization of intangible assets	201	66	135	0.3 %	0.2 %
Restructuring expenses	1,309	1,250	59	1.8 %	0.1 %
Total	<u>\$ 32,603</u>	<u>\$ 3,930</u>	<u>\$ 28,673</u>	<u>44.3 %</u>	<u>46.4 %</u>

Research and development expenses were lower by \$0.2 million for the three months ended September 30, 2022, compared to the same period in 2021 primarily due to the termination of engineering employees in Beijing, China that occurred during the fourth quarter 2021.

Research and development expenses were approximately the same for the nine months ended September 30, 2022, compared to the same period in 2021 as the higher development expenses for new test & measurement products and inclusion of nine months of Smarteq's expense for research and development offset the reduction in expense resulting from the termination of engineering employees in Beijing, China during the fourth quarter 2021.

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

Sales and marketing expenses increased \$0.3 million for the three months ended September 30, 2022 compared to the same period in 2021 due to higher employee related expenses, and higher travel and marketing expenses.

Sales and marketing expenses increased \$1.4 million for the nine months ended September 30, 2022 compared to the same period in 2021 due to higher employee-related expenses, higher travel and marketing expenses, and the inclusion of nine months of Smarteq's expenses.

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

General and administrative expenses increased by \$0.9 million for the three months ended September 30, 2022 compared to the same period in 2021, primarily due to increased expenses for cash-based incentive compensation programs.

General and administrative expenses increased by \$1.2 million for the nine months ended September 30, 2022 compared to the same period in 2021 due to increased expenses for cash-based incentive compensation programs and inclusion of nine months of Smarteq's expenses.

Amortization of intangible assets within operating expenses was \$0.1 million for the three months ended September 30, 2022 and \$0.2 million for the nine months ended September 30, 2022, which relates to amortization of intangible assets from the Smarteq acquisition.

Restructuring expenses relate to expenses for the transition of manufacturing operations from our Tianjin, China facility to contract manufacturers. Restructuring expenses of \$0.1 million for three months ended September 30, 2022 and \$1.3 million for nine months ended September 30, 2022, consisted primarily of employee severance and payroll related costs associated with the termination of 78 Tianjin-based employees during the nine months ended September 30, 2022.

Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Interest income	\$ 75	\$ 6	\$ 125	\$ 37
Foreign exchange gains (losses)	114	(10)	188	(54)
Other, net	16	0	17	7
Total	\$ 205	\$ (4)	\$ 330	\$ (10)
Percentage of revenues	0.8%	(0.0)%	0.4%	(0.0)%

Other income, net consists of interest income, foreign exchange gains, and interest expense. Interest income from investment securities increased during the three and nine months ended September 30, 2022 compared to the prior year, due to higher market interest rates. Foreign exchange gains during the three and nine months ended September 30, 2022 and 2021 were related to changes in the exchange rate between the Swedish Krona and the U.S. dollar as well as between the Chinese Yuan and the U.S. dollar.

Expense for Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expense for income taxes	\$ (434)	\$ 5	\$ (396)	\$ 17
Effective tax rate	(28.2)%	0.7%	(93.6)%	(11.3)%

We recorded an income tax benefit of \$0.4 million for the nine months ended September 30, 2022 and income tax expense of \$17 for the nine months ended September 30, 2021. The income tax benefit recorded for the nine months ended September 30, 2022 differs from the statutory rate primarily because it reflects a \$0.4 million benefit related to a partial reversal of the valuation allowance, established in connection with the acquisition of Smarteq, for Swedish net deferred tax assets. The expense recorded for the nine months ended September 30, 2021 differed from the Federal statutory rate of 21% primarily because we maintained a full valuation allowance on our deferred tax assets.

On a regular basis, we evaluate the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. We considered multiple factors in our evaluation of the need for a valuation allowance. The valuation allowance against our deferred tax assets was \$14.2 million at September 30, 2022 and \$15.0 million at December 31, 2021. At September 30, 2022, the deferred tax assets consist of U.S. deferred tax assets of \$11.9 million and Non-U.S. deferred tax assets of \$2.7 million.

We recorded pretax book income for the nine months ended September 30, 2022 and pretax book income during 2021. Based on a three-year cumulative income for the Sweden jurisdiction, a sequential increase in pre-tax profits during 2022 and a higher revenue and profit forecast for 2023 supported by new customer contracts, we partially reversed the valuation allowance for net deferred tax assets for the Sweden jurisdiction and recorded an income tax benefit of \$0.4 million because we believe that we will be able to utilize a portion of the net operating losses in the Sweden jurisdiction. For U.S. deferred tax assets, we believe our financial outlook remains positive. However, recent macroeconomic trends, including the current environment of inflationary pressures, an economic downturn and potential for a recession have created a high level of uncertainty. Due to this uncertainty, as well as difficulties with forecasting financial results historically, we maintained a full valuation allowance on our U.S. and Chinese deferred tax assets at September 30, 2022. The analysis that we prepared to determine the valuation allowance required significant judgment and assumptions regarding future market

conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance. See Note 13 to the condensed consolidated financial statements for more information related to income taxes.

Net Income (Loss)

We recorded net income of \$2.0 million for the three months ended September 30, 2022 compared to a net income of \$0.7 million for the same period in 2021, as higher gross profits from an increase in revenues offset higher operating expenses. Operating expenses were higher by \$1.0 million due to higher expenses for incentive compensation expenses and travel expenses.

We recorded a net income of \$0.8 million for the nine months ended September 30, 2022 compared to a net loss of \$0.2 million for the same period in 2021, as higher profits from an increase in revenues and higher other income offset higher operating expenses. Operating expenses were higher by \$3.9 million for the nine months ended September 30, 2022 compared to the same period in 2021 due to higher restructuring expenses of \$1.3 million, higher sales and marketing expenses of \$1.4 million, and higher general and administrative expenses of \$1.2 million. Other income increased due to higher interest income and foreign exchange gains. We recorded an income tax benefit of \$0.4 million related to a partial reversal of the valuation allowance for net deferred tax assets related to our Swedish jurisdiction.

Liquidity and Capital Resources

	Nine Months Ended September 30,	
	2022	2021
Net cash flow provided by (used in):		
Operating activities	\$ 1,421	\$ 6,371
Investing activities	\$ (135)	\$ 4,259
Financing activities	\$ (3,088)	\$ (6,631)
Net (decrease) increase in cash and cash equivalents	\$ (1,802)	\$ 3,999

	September 30, 2022	December 31, 2021
Cash and cash equivalents at the end of period	\$ 5,858	\$ 8,192
Short-term investments at the end of period	\$ 22,147	\$ 22,562
Working capital at the end of period	\$ 49,850	\$ 48,620

Overview

Our primary source of liquidity is cash provided by operations, with short-term swings in liquidity supported by a significant balance of cash and short-term investments. The balance has fluctuated with cash from operations, acquisitions and divestitures, payment of dividends and the repurchase of our common shares.

Within operating activities, we are historically a net generator of operating funds from our income statement activities. During periods of expansion, we expect to use cash from our balance sheet.

Within investing activities, capital spending historically ranges between 2.0% and 4.0% of our revenues and the primary use of capital is for manufacturing, engineering, and product development. We historically have made significant transfers between investments and cash as we rotate our large cash balances and short-term investment balances between money market funds, which are accounted for as cash equivalents, and other investment vehicles. We have a history of supplementing our organic revenue with acquisitions of product lines or companies, resulting in significant uses of our cash and short-term investment balances from time to time. We expect the historical trend for capital spending and the variability caused by moving money between cash and investments and periodic merger and acquisition activity to continue in the future.

Within financing activities, we have historically generated funds from the exercise of stock options and proceeds from the issuance of common stock through the ESPP. We have historically used funds to issue dividends and we periodically repurchase shares of our common stock through share repurchase programs. We used \$3.2 million for the repurchase of shares during 2021. Share repurchases were funded with cash on hand.

At September 30, 2022, our cash, cash equivalents, and short-term investments were approximately \$28.0 million, and we had working capital of \$49.9 million. Throughout the COVID-19 pandemic, we have proactively managed our costs and our working capital in order to protect our financial position and maintain our workforce. Management believes our cash and investments provide adequate liquidity

and working capital for the next twelve months from the date of the Quarterly Report on Form 10-Q to support our operations given our historic ability to generate free cash flow (cash flow from operations less capital spending).

Operating Activities:

Operating activities generated \$1.4 million of cash during the nine months ended September 30, 2022. We generated \$6.1 million of cash from our statement of operations and used \$4.7 million for the balance sheet. The balance sheet reflects a net use of cash primarily due to net increases in accounts receivable and inventories. Accounts receivable increased by \$2.1 million during the nine months ended September 30, 2022 due to higher sequential revenues. Net inventories were \$3.4 million higher at September 30, 2022 compared to year end 2021 as a result of increases in inventories for both test & measurement products and antennas and Industrial IoT devices. Inventories were higher because we made some strategic decisions to increase our inventories to keep us in front of supply chain constraints and also because of temporary delays with certain antenna customer orders due to their supply chain constraints with chipsets.

Operating activities generated \$6.4 million of cash during the nine months ended September 30, 2021. We generated \$4.3 million of cash from our statement of operations and \$2.1 million from the balance sheet. The balance sheet was a net source of cash as accounts receivable collections offset the impact of higher inventories. Accounts receivable decreased by \$2.2 million primarily due to lower days sales outstanding on outstanding invoices. Inventories increased by approximately \$1.7 million in order to maintain customer service levels while the Company manages supply chain delays and component shortages for both product lines.

Investing Activities:

Our investing activities used \$0.1 million of cash during the nine months ended September 30, 2022. During the nine months ended September 30, 2022, redemptions and maturities of our investments provided \$22.4 million in funds and we rotated \$22.0 million of cash into new investments. We used \$0.6 million for capital expenditures during the nine months ended September 30, 2022.

Our investing activities provided \$4.3 million of cash during the nine months ended September 30, 2021. In April 2021, the Company used \$6.3 million for the purchase of Smarteq, net of cash acquired. During the nine months ended September 30, 2021, redemptions and maturities of our investments provided \$33.7 million in funds and we rotated \$21.1 million of cash into new investments. We used \$2.0 million for capital expenditures during the nine months ended September 30, 2021.

Financing Activities:

We used \$3.1 million in cash for financing activities during the nine months ended September 30, 2022. We used \$3.0 million for quarterly cash dividends and \$0.4 million for payroll taxes related to restricted stock awards. This was offset by proceeds from the issuance of common stock for our ESPP, which provided \$0.4 million for the nine months ended September 30, 2022.

We used \$6.6 million in cash for financing activities during the nine months ended September 30, 2021. We used \$3.0 million for quarterly cash dividends, \$3.2 million for share repurchases, and \$0.8 million for payroll taxes related to stock-based compensation in this period. The tax payments related to restricted stock awards, this was offset by proceeds from the issuance of common stock for our ESPP, which provided \$0.4 million for the nine months ended September 30, 2021.

Material Cash Requirements

Our material cash requirements from known contractual and other obligations primarily relate to non-cancelable purchase obligations. Expected timing of those payments are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Purchase obligations	\$ 24,713	\$ 23,180	\$ 1,532	\$ 1	\$ 0

Critical Accounting Policies and Estimates

We use certain critical accounting policies as described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” of the 2020 Form 10-K. There have been no material changes in

any of our critical accounting policies since December 31, 2021. See Note 1 to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

See our 2021 Form 10-K (Item 7A). As of September 30, 2022, there have been no material changes in this information.

Item 4: Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act, as amended (the “Exchange Act”) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported within time periods specified in the SEC rules and forms.

In connection with the evaluation required by Rule 13a-15(d), management, with the participation of the Chief Executive Officer and Chief Financial Officer, has identified that there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite previously having a remote working environment for all non-production related employees and now having a hybrid work environment. We are continually monitoring and assessing the impact of COVID-19 on our internal controls to minimize the impact to their design and operating effectiveness.

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

We may, from time to time, be the subject of various pending or threatened legal actions in the ordinary course of our business. All such matters are subject to many uncertainties and outcomes that are not predictable with assurance. To our knowledge, as of September 30, 2022, there were no claims or litigation pending against the Company that would be reasonably likely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Item 1A: Risk Factors

See our 2021 Form 10-K (Item 1A). As of September 30, 2022, there have been no material changes in this information.

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

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

Exhibit No.	Description
31.1*	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following materials from PCTEL, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 formatted Inline XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Balance Sheet, (iii) the Unaudited Condensed Consolidated Statement of Stockholders' Equity, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).
	* filed herewith
	** furnished herewith

SIGNATURE

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

PCTEL, Inc.,
a Delaware corporation

/s/ David A. Neumann

David A. Neumann
Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2022

/s/ Kevin J. McGowan

Kevin J. McGowan
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2022

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David A. Neumann, certify that:

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

Date: November 9, 2022

/s/ David A. Neumann

David A. Neumann
[Chief Executive Officer]
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin J. McGowan, certify that:

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

Date: November 9, 2022

/s/ Kevin J. McGowan

Kevin J. McGowan
Chief Financial Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PCTEL, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

DATE: November 9, 2022

By: /s/ David A. Neumann
DAVID A. NEUMANN
[Chief Executive Officer]
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PCTEL, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

DATE: November 9, 2022

By: /s/ Kevin J. McGowan
KEVIN J. MCGOWAN
[Chief Financial Officer]
(Principal Executive Officer)
