UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2002

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

For the transition period from __ to __

Commission File Number 000-27115

PCTEL, Inc.

(Exact Name of Business Issuer as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	77-0364943 (I.R.S. Employer Identification Number)
8725 W. Higgins Road, Suite 400, Chicago IL (Address of Principal Executive Office)	60631 (Zip Code)

(773) 243-3000
(Registrant's Telephone Number, Including Area Code)

Indicate by checkmark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of October 31, 2002, there were 19,909,916 shares of the Registrant's Common Stock outstanding.

PCTEL, Inc.

Form 10-Q
For the Quarter Ended September 30, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PCTEL, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share information)

	September 30, 2002 (unaudited)	December 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,049	$ 38,393
Short-term investments	68,157	87,235
Accounts receivable, net	4,234	2,849
Inventories, net	1,542	2,870
Prepaid expenses and other assets	7,094	5,055
Deferred tax asset	—	400
Total current assets	125,076	136,802
PROPERTY AND EQUIPMENT, net	2,101	2,769
GOODWILL AND INTANGIBLE ASSETS, net	1,649	384
OTHER ASSETS	2,856	228
TOTAL ASSETS	**$131,682**	**$140,183**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,006	$ 4,944
Accrued royalties	3,508	12,343
Income taxes payable	6,852	5,573
Accrued liabilities	6,070	9,421
Long-term liabilities — current portion	4	—
Total current liabilities	17,440	32,281
Long-term liabilities	49	141
Total liabilities	17,489	32,422
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value, 50,000,000 shares authorized, 20,065,866 and 19,665,486 issued and outstanding at September 30, 2002 and December 31, 2001 respectively	20	20
Additional paid-in capital	153,266	150,319
Deferred compensation	(802)	(1,158)
Retained deficit	(38,694)	(42,232)
Accumulated other comprehensive income	403	812
Total stockholders' equity	114,193	107,761
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$131,682**	**$140,183**

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

PCTEL, Inc.

Condensed Consolidated Statements of Operations
(in thousands, except per share information)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(unaudited)		(unaudited)	
REVENUES	$12,548	$ 4,738	$32,447	$ 33,444
COST OF REVENUES	7,481	5,070	18,275	25,302
INVENTORY LOSS (RECOVERY)	(3,795)	11,288	(5,348)	11,288
GROSS PROFIT	**8,862**	**(11,620)**	**19,520**	**(3,146)**
OPERATING EXPENSES:				
Research and development	2,477	2,824	7,634	9,102
Sales and marketing	1,904	2,322	5,395	9,011
General and administrative	1,248	3,665	3,856	8,746
Amortization of goodwill and other intangible assets	50	1,027	50	2,922
Goodwill impairment	—	15,550	—	15,550
Restructuring charges (see Note 4)	88	274	735	2,381
Amortization of deferred compensation (See Note 6)	170	289	528	843
Total operating expenses	5,937	25,951	18,198	48,555
INCOME (LOSS) FROM OPERATIONS	2,925	(37,571)	1,322	(51,701)
OTHER INCOME, NET:				
Other income, net	641	1,409	2,631	4,875
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	3,566	(36,162)	3,953	(46,826)
PROVISION FOR INCOME TAXES	352	5,274	415	5,290
NET INCOME (LOSS)	**$ 3,214**	**$(41,436)**	**$ 3,538**	**$(52,116)**
Basic earnings (loss) per share	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)
Shares used in computing basic earnings (loss) per share	19,972	19,414	19,876	19,100
Diluted earnings (loss) per share	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)
Shares used in computing diluted earnings (loss) per share	20,139	19,414	20,101	19,100

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

PCTEL, Inc.

Condensed Consolidated Statements of Cash Flows
(in thousands)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
	(unaudited)	
Cash Flows from Operating Activities:		
Net income (loss)	$ 3,538	$(52,116)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,487	6,102
Goodwill impairment	—	15,550
Loss on disposal/sale of fixed assets	83	522
Provision for (recovery of) allowance for doubtful accounts	(431)	1,100
Write-down for (recovery of) excess and obsolete inventories	(184)	2,960
Decrease in deferred tax asset	400	5,255
Amortization of deferred compensation	522	843
Stock compensation expense	11	—
Tax benefit from stock option exercises	853	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(953)	19,765
Decrease in inventories	1,511	5,938
Decrease (increase) in prepaid expenses and other assets	(4,617)	2,594
Decrease in accounts payable	(3,938)	(6,048)
Increase (decrease) in accrued royalties	(8,835)	149
Increase in income taxes payable	1,279	1,548
Increase (decrease) in accrued liabilities	(3,571)	4,090
Increase (decrease) in long-term liabilities	(92)	201
Net Cash Provided by (Used in) Operating Activities	**(12,937)**	**8,453**
Cash Flows from Investing Activities:		
Capital expenditures for property and equipment	(394)	(597)
Proceeds on sale of property and equipment	19	13
Proceeds from sales and maturities of available-for-sale investments	69,230	71,935
Purchases of available-for-sale investments	(50,584)	(65,578)
Purchase of business, net of cash acquired	(1,598)	(32)
Net Cash Provided by Investing Activities	**16,673**	**5,741**
Cash Flows from Financing Activities:		
Principal payments of notes payable	(20)	—
Proceeds from issuance of common stock	2,659	2,521
Payments for repurchase of common stock	(741)	—
Net Cash Provided by Financing Activities	**1,898**	**2,521**
Net increase in cash and cash equivalents	5,634	16,715
Cumulative translation adjustment	22	—
Cash and cash equivalents, beginning of period	38,393	25,397
Cash and cash equivalents, end of period	**$ 44,049**	**$ 42,112**

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

PCTEL, Inc.

Notes to the Condensed Consolidated Financial Statements
For the Three and Nine Months Ended: September 30, 2002
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements included herein have been prepared by PCTEL, Inc. (unless otherwise noted, "PCTEL", "we", "us" or "our" refers to PCTEL, Inc.), pursuant to the laws and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the disclosures are adequate to make the information not misleading. The condensed balance sheet as of December 31, 2001 has been derived from the audited financial statements as of that date, but does not include all disclosures required by generally accepted accounting principles. These financial statements and notes should be read in conjunction with the audited financial statements and notes thereto, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

The unaudited condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the periods indicated. The results of operations for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for future periods or the year ending December 31, 2002.

2. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations of the Company

We were originally incorporated in California in February 1994, and in July 1998, we reincorporated in Delaware. We provide cost-effective software-based communications solutions that address high-speed Internet connectivity requirements for existing and emerging technologies. Our communications products enable Internet access through PCs and alternative Internet access devices. Our soft modem products consist of a hardware chipset containing a proprietary host signal processing software architecture which allows for the utilization of the computational and processing resources of a host central processor, effectively replacing special-purpose hardware required in conventional hardware-based modems. Together, the combination of the chipset and software drivers are a component part within a computer which allows for telecommunications connectivity. By replacing hardware with a software solution, our host signal processing technology lowers costs while enhancing capabilities.

Our strategy is to broaden product offerings that enable cost-effective access in both wired and wireless environments. In May 2002, we acquired the assets of cyberPIXIE, Inc. ("cyberPIXIE"), a wireless access provider. The acquisition of cyberPIXIE is consistent with our strategy and permits us to participate in a new emerging market. As a result of the acquisition, we obtained products and technology that will enable roaming between and among 802.11 wireless and cellular networks.

Our wireless product portfolio consists of both PC client and network infrastructure products. Our wireless client product is a PC based software solution that facilitates roaming and connection to wireless networks. These networks may be public wireless local area network ("WLAN") hotspots, and cellular data networks (wireless wide area networks), as well as private enterprise and home WLANs. Our client products are offered as custom branded offerings associated with a particular carrier and typically includes carrier specific 'service finder' location databases. Our client product offers a superior end user experience while simultaneously reducing the costs associated with typical end user support problems that our product addresses.

Our infrastructure products consist of software programs and third party computing platforms (embedded or PC servers) that enable the deployment of public WLANs. Our gateway product aggregates WLAN traffic from multiple access points, supports proprietary end user features, provides location specific content, and supports industry standard radius compliant end user authentication and accounting. Our WLAN controller further aggregates gateway traffic and provides storage for end user databases, subscription plans, and central control of gateway management functions.

We are subject to certain risks including the impact of the continued economic slowdown, concentration of sales among a limited number of customers, continuing decreases in the average selling prices of our products, concentration of sales in Asia, the Company's ability to develop and successfully introduce new and enhanced products such as wireless products, the outcome of potential litigation involving intellectual property, competition from larger, more established companies and dependence on key suppliers.

Use of Estimates

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

Consolidation and Foreign Currency Translation

We use the United States dollar as the functional currency for our financial statements, including the financial statements of our subsidiaries in foreign countries, with the exception of our Japanese subsidiary for which the functional currency is the Japanese Yen. Assets and liabilities of our Japanese operations are translated to U.S. dollars at the exchange rate in effect at the applicable balance sheet date, and revenues and expenses are translated using average exchange rates prevailing during that period. Translation gains (losses) of our Japanese subsidiary are recorded in accumulated other comprehensive income as a component of stockholders' equity. All gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in net income. Operations and translation adjustments have not been material to date. As of September 30, 2002, we had subsidiaries in the Cayman Islands, Japan, France, Taiwan and Yugoslavia. These consolidated financial statements include the accounts of PCTEL and our subsidiaries after eliminating intercompany accounts and transactions.

Cash Equivalents and Short-Term Investments

We divide our financial instruments into two different classifications.

Cash equivalents:	are debt instruments that mature within three months after we purchase them.
Short-term investments:	are marketable debt instruments that generally mature between three months and two years from the date we purchase them. All of our short-term investments are classified as current assets and available-for-sale. As of September 30, 2002, short-term investments consisted of high-grade corporate securities with maturity dates of approximately five months to two years. These investments are recorded at current fair market value and any unrealized holding gains and losses (based on the difference between market price and book value) are reflected as other comprehensive income/loss in the stockholders' equity section of the balance sheet. We have accumulated a $381,000 unrealized holding gain as of September 30, 2002. Realized gains and losses and declines in value of securities judged to be other than temporary are included in interest income (expense) and have not been significant to date. Interest and dividends of all securities are included in interest income.

Concentrations and Risks

Financial instruments that potentially subject us to concentration and credit risk consist primarily of short-term investments and trade receivables.

To mitigate credit risk related to short-term investments, we have an investment policy to preserve the value of capital and generate interest income from these investments without undue exposure to risk fluctuations. Market risk is the potential loss due to the change in value of a financial instrument due to interest rates or equity prices. Our investment policy is to stipulate short durations, limiting interest rate exposure, and to benchmark performance against comparable benchmarks. We maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations with ratings of A or better and money market funds.

For trade receivables, credit risk is the potential for a loss due to a customer not meeting its payment obligations. Estimates are used in determining an allowance for amounts which we may not be able to collect based on current trends, the length of time receivables are past due and historical collection experience. We moderate this risk by establishing and reviewing credit limits, monitoring those limits and making updates as required. Provisions for and recovery of bad debts are recorded against revenue in our consolidated statements of operations.

Our customers are concentrated in the personal computer industry and modem board manufacturer industry segment and in certain geographic locations. We actively market and sell products in Asia. We perform ongoing evaluations of our customers' financial condition and generally require no collateral. As of September 30, 2002, three customers accounted for approximately 37%, 26% and 17% of gross accounts receivable, respectively. As of December 31, 2001, two customers accounted for approximately 48% and 22% of gross accounts receivable.

For the three and nine months ended September 30, 2002 and year ended December 31, 2001, we purchased integrated circuits from a limited number of vendors. If these vendors are unable to provide integrated circuits in a timely manner and we are unable to find alternative vendors, our business, operating results and financial condition could be materially adversely affected.

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

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs. Inventories as of September 30, 2002 and December 31, 2001 were composed of finished goods and work-in-process only. We regularly monitor inventory quantities on hand and, based on our current estimated requirements, it was determined that there was excess inventory and those excess amounts were fully reserved as of September 30, 2002 and December 31, 2001. Due to competitive pressures and technological innovation, it is possible that these estimates could change in the near term. As of September 30, 2002, the allowance for inventory losses was $4.0 million. As of December 31, 2001, the allowance for inventory losses was $7.6 million and adverse purchase commitments were $2.3 million.

Software Development Costs

We account for software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Our products include a software component. To date, we have expensed all software development costs because these costs were incurred prior to the products reaching technological feasibility.

Revenue Recognition

Revenues consist primarily of sales of products to original equipment manufacturers ("OEMs") and distributors. Revenues from sales to customers are recognized upon shipment when title and risk of loss passes to the customers, unless we have future obligations or have to obtain customer acceptance, in which case revenue is not recorded until such obligations have been satisfied or customer acceptance has been achieved. We provide for estimated sales returns and customer rebates related to sales to OEMs at the time of shipment. Customer rebates are recorded against receivables to the extent that the gross amount has not been collected by the end customer. Once the gross amount has been collected, the accrued customer rebate is then reclassified to accrued liabilities. As of September

30, 2002 and December 31, 2001, we have an allowance for customer rebates against accounts receivable of $399,000 and $200,000, respectively, and accrued customer rebates of $1.8 million and $2.1 million, respectively, presented as current accrued liabilities on the balance sheet. Accrued customer rebates will be paid to the customers, upon request, in the future unless they are forfeited by the customer. Revenues from sales to distributors are made under agreements allowing price protection and rights of return on unsold products. We record revenue relating to sales to distributors only when the distributors have sold the product to end-users. Customer payment terms generally range from letters of credit collectible upon shipment to open accounts payable 60 days after shipment.

Royalty revenue is recognized when confirmation of royalties due to us is received from licensees or when non-refundable minimal royalty payments are received. Furthermore, revenues from technology licenses are recognized after delivery has occurred, the amount is fixed and determinable and collection is reasonably assured. To the extent there are extended payment terms on these contracts, revenue is recognized as the payments become due and the cancellation privilege lapses. To date, we have not offered post-contract customer support.

Income Taxes

We provide for income taxes under the provisions of SFAS No. 109, “Accounting for Income Taxes”. SFAS No. 109 requires an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Valuation allowances are provided against assets which are not likely to be realized.

Earnings Per Share

We compute earnings per share in accordance with SFAS No. 128, “Earnings Per Share”. SFAS No. 128 requires companies to compute net income per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding, less shares subject to repurchase. Diluted earnings per share is computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of stock options and warrants using the treasury stock method. Common stock options and warrants are excluded from the computation of diluted earnings per share if their effect is anti-dilutive. The weighted average common stock option grants excluded from the calculations of diluted net loss per share were 200,000 and 400,000 for the three months and nine months ended September 30, 2002, respectively.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2002 and 2001, respectively (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
		(Unaudited)		
Net income (loss)	$ 3,214	$(41,436)	$ 3,538	$(52,116)
Basic earnings (loss) per share:				
Weighted average common shares outstanding	20,123	19,414	20,022	19,100
Less: Weighted average shares subject to repurchase	(151)	—	(146)	—
Weighted average common shares outstanding	19,972	19,414	19,876	19,100
Basic earnings (loss) per share	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)
Diluted earnings (loss) per share:				
Weighted average common shares outstanding	19,972	19,414	19,876	19,100
Weighted average shares subject to repurchase	151	—	146	—
Weighted average common stock option grants and outstanding warrants	16	—	79	—
Weighted average common shares and common stock equivalent outstanding	20,139	19,414	20,101	19,100
Diluted earnings (loss) per share	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)

Industry Segment, Customer and Geographic Information

We operate in one segment, that segment being solutions that enable connectivity. We market our products worldwide through our sales personnel, independent sales representatives and distributors.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Taiwan	55%	72%	65%	29%
China (Hong Kong)	31	14	17	60
Rest of Asia	1	7	2	3
Europe	—	2	1	6
Total	87%	95%	85%	98%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Customer	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
A — Askey	21%	2%	26%	5%
B — Prewell	31	11	16	57
C — GVC	24	48	27	16
D — Silicon Applications Corporation	1	11	2	3
Total	77%	72%	71%	81%

Comprehensive Income

The following table provides the calculation of other comprehensive income for the three and nine months ended September 30, 2002 and 2001 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Net income (loss)	**$3,214**	**$(41,436)**	**$3,538**	**$(52,116)**
Other comprehensive income:				
Unrealized gains (loss) on available-for-sale securities	(9)	319	(430)	578
Cumulative translation adjustment	(9)	—	21	—
Comprehensive income (loss)	$3,196	$(41,117)	$3,129	$(51,538)

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No.’s 141 and 142, “Business Combinations” and “Goodwill and Other Intangible Assets”, respectively. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 142 supercedes Accounting Principles Board Opinion (“APB”) No. 17 and addresses the financial accounting and reporting standards for goodwill and intangible assets subsequent to their initial recognition. SFAS No. 142 requires that goodwill be separately disclosed from other intangible assets in the statement of financial position, and that goodwill no longer be amortized. It also requires that goodwill and other intangible assets be tested for impairment at least annually. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001 and must be applied to all goodwill and other intangible assets that are recognized in an entity’s balance sheet at the beginning of that fiscal year. Additionally, an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer’s intent to do so. We adopted SFAS No. 142 on January 1, 2002 and ceased to amortize goodwill on that date.

If amortization expenses related to goodwill that is no longer amortized had been excluded from operating expenses for the quarter and nine months ended September 30, 2001, diluted earnings per share for the three and nine months ended September 30, 2001 would have increased by $0.07 and $0.22, respectively.

The changes in the carrying amount of goodwill as of December 31, 2001 and September 30, 2002 were as follows:

	Goodwill	Accumulated Amortization	Goodwill, net
		(in thousands)	
Balance at December 31, 2000	$ 27,212	$ (6,837)	$ 20,376
Goodwill from prior acquisitions	235	—	235
Goodwill amortization	—	(4,297)	(4,297)
Goodwill impairment	(27,015)	11,085	(15,930)
Balance at December 31, 2001	$ 432	$ (48)	$ 384
Goodwill from acquisition	863	—	863
Balance at September 30, 2002	$ 1,295	$ (48)	$ 1,247

The following table reflects the adjusted net income and net income per share as if SFAS No. 142 had been effective as of January 1, 2001:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(in thousands, except per share amounts)			
Net income (loss):				
Reported net income (loss)	$3,214	$(41,436)	$3,538	$(52,116)
Goodwill amortization (see note below)	—	1,448	—	4,185
Adjusted net income (loss)	$3,214	$(39,988)	$3,538	$(47,931)
Basic income (loss) per share:				
Reported net income (loss)	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)
Goodwill amortization	—	0.07	—	0.22
Adjusted net income (loss)	$ 0.16	$ (2.06)	$ 0.18	$ (2.51)
Diluted income (loss) per share:				
Reported net income (loss)	$ 0.16	$ (2.13)	$ 0.18	$ (2.73)
Goodwill amortization	—	0.07	—	0.22
Adjusted net income (loss)	$ 0.16	$ (2.06)	$ 0.18	$ (2.51)

Note: The $1.4 million and $4.2 million goodwill amortization above include $0.5 million and $1.6 million of goodwill amortization which were classified as cost of revenues in the Consolidated Statements of Operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supercedes SFAS No. 121 by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We adopted SFAS No. 144 in January 2002 and this adoption did not have a material impact on our financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities". SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS NO. 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS NO. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 and early application is encouraged. We will adopt SFAS NO. 146 on January 1, 2003. The provisions of EITF No. 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF No. 94-3 prior to the adoption of SFAS NO. 146. The effect on adoption of SFAS NO. 146 will change, on a prospective basis, the timing of when restructuring charges are recorded from a commitment date approach to when the liability is incurred.

3. ACQUISITION

In May 2002, we acquired the assets of Chicago-based cyberPIXIE, Inc. for a total of $1.6 million in cash. The purchase price of $1.6 million was allocated to the assets acquired and liabilities assumed at their estimated fair values on the date of acquisition.

The acquisition was accounted for under the purchase method of accounting and the results of operations of cyberPIXIE were included in our financial statements after May 22, 2002. Under the purchase method of accounting, if the purchase price exceeds the net tangible assets acquired, the difference is recorded as excess purchase price and allocated to in-process research and development, goodwill and other intangible assets. In this circumstance, the difference was $1.4 million. We attributed $102,000 of the excess purchase price to in-process research and development and the balance of $1.3 million to goodwill ($863,000) and developed technology ($452,000). We have classified this balance of $1.3 million as goodwill and other intangible assets, net, in the accompanying consolidated balance sheets and are amortizing the developed technology over a useful life of three years.

The pro forma data has not been disclosed because the amounts are not material.

4. RESTRUCTURING CHARGES

2001 Restructuring

On February 8, 2001, we announced a series of actions to streamline support for our voiceband business and sharpen our focus on emerging growth sectors. These measures were part of a restructuring program and included a reduction in worldwide headcount of a total of 22 employees (consisting 7 research and development employees, 9 sales and marketing employees and 6 general and administrative employees), a hiring freeze and cost containment programs. On May 1, 2001, we announced a new business structure to provide for greater focus on our activities with a significantly reduced workforce. A total of 42 positions were eliminated as part of this reorganization (consisting of 13 research and development, 12 sales and marketing and 17 general and administrative positions). In the fourth quarter of 2001, a total of 26 positions (consisting of 7 research and development, 8 sales and marketing and 11 general and administrative positions) were eliminated to further focus our business. In the aggregate, 90 positions were eliminated during the year ended December 31, 2001. The restructuring resulted in $3.8 million of charges for the year ended December 31, 2001, consisting of severance and employment related costs of $2.5 million and costs related to closure of excess facilities as a result of the reduction in force of $1.3 million.

Total severance and employment related costs of $2.5 million incurred in 2001 consisted of termination compensation and related benefits. Total costs incurred in 2001 for closure of excess facilities of $1.3 million consisted of future minimum lease payments and related costs on the excess and unused facilities as a result of our down-sizing. As of September 30, 2002, approximately $2.4 million of termination compensation and related benefits had been paid to terminated employees. The remaining accrual balance of $29,000 will be paid on various dates extending through October 2002. As of September 30, 2002, approximately $959,000 of lease payments and related costs had been paid to the landlord for the excess facilities. The remaining accrual balance of $353,000 will be paid monthly through February 2003. The following analysis sets forth the rollforward of this charge:

	Accrual Balance at June 30, 2002	Restructuring Charges	Payments	Accrual Balance at September 30, 2002
Severance and employment related costs	$115	$ —	$ 86	$ 29
Costs for closure of excess facilities	565	—	212	353
	$680	$ —	$298	$382

2002 Restructuring

In the quarter ended June 30, 2002, we further eliminated 20 positions (consisting of 13 research and development, 5 sales and marketing and 2 general and administrative positions), which resulted in additional restructuring charges of $725,000 consisting of severance and employment related costs of $526,000 and costs related to closure of excess facilities as a result of the reduction in force of $199,000. In September 2002, we announced our intention to relocate our headquarters and finance functions to Chicago, Illinois. As a result of the move, 5 general and administrative positions will be replaced, resulting in additional severance and employment related costs of $64,000. Additional restructuring charges of $24,000 were recorded in the current quarter related to closure of excess facilities in the second quarter of 2002. As of September 30, 2002, approximately $504,000 of termination compensation and related benefits had been paid to terminated employees. The remaining accrual balance of $86,000 will be paid on various dates extending through January 2003. As of September 30, 2002, approximately $100,000 of lease payments and related costs had been paid to the landlord for the excess facilities. The remaining accrual balance of $123,000 will be paid monthly through May 2004. The following analysis sets forth the rollforward of this charge:

	Accrual Balance at June 30, 2002	Restructuring Charges	Payments	Accrual Balance at September 30, 2002
Severance and employment related costs	$ 85	$ 64	$ 63	$ 86
Costs for closure of excess facilities	142	24	43	123
	$227	$ 88	$106	$209

The combined effect of the two restructurings is:

	Accrual Balance at June 30, 2002	Restructuring Charges	Payments	Accrual Balance at September 30, 2002
Severance and employment related costs	$200	$ 64	$149	$115
Costs for closure of excess facilities	707	24	255	476
	$907	$ 88	$404	$591

5. CONTINGENCIES:

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

As of September 30, 2002 and December 31, 2001, we had accrued royalties of approximately $3.5 million and $12.3 million, respectively. Of these amounts, approximately $452,000 and $42,000 represent amounts accrued based upon signed royalty agreements as of September 30, 2002 and December 31, 2001, respectively. The remainder of accrued royalties represents management’s best estimate within a range of possible settlements as of each date presented. While management is unable to estimate the maximum amount of the range of possible settlements, it is possible that actual settlements could exceed the amounts accrued as of each date presented.

We have from time to time in the past received correspondence from third parties, and may receive communications from additional third parties in the future, asserting that our products infringe on their intellectual property rights, that our patents are unenforceable or that we have inappropriately licensed our intellectual property to third parties. We expect these claims to increase as our intellectual property portfolio becomes larger. These claims could affect our relationships with existing customers and may prevent potential future customers from purchasing our products or licensing our technology. Intellectual property claims against us, and any resulting lawsuit, may result in our incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and could divert management’s time and attention. In addition, any claims of this kind, whether they are with or without merit, could cause product shipment delays or require us to enter into royalty or licensing agreements. In the event that we do not prevail in litigation, we could be prevented from selling our products or be required to enter into royalty or licensing agreements on terms which may not be acceptable to us. We could also be prevented from selling our products or be required to pay substantial monetary damages. Should we cross license our intellectual property in order to obtain licenses, we may no longer be able to offer a unique product. To date, we have not obtained any licenses from 3Com and the other companies whom we have received communication from. As of September 30, 2002, no material lawsuits relating to intellectual property are currently filed against us.

We have from time to time in the past received correspondence from third parties alleging that we infringe the third party’s intellectual property rights. We expect these claims to increase as our intellectual property portfolio becomes larger.

Ronald H. Fraser v. PC-Tel, Inc., Wells Fargo Shareowner Services, Wells Fargo Bank Minnesota, N.A.

On March 19, 2002, plaintiff Ronald H. Fraser filed a Verified Complaint (the “Complaint”) in Santa Clara County (California) Superior Court for breach of contract and declaratory relief against us, and for breach of contract, conversion, negligence and declaratory relief against our transfer agent, Wells Fargo Bank Minnesota, N.A (“Wells Fargo”). The Complaint seeks compensatory damages allegedly suffered by Mr. Fraser as a result of the tax liability from failure to facilitate transaction by Mr. Fraser during a secondary offering on April 14, 2000. Wells Fargo filed a Verified Answer to the Complaint on June 12, 2002. On July 10, 2002, we filed a Verified Answer to the Complaint, denying Mr. Fraser’s claims and asserting numerous affirmative defenses. Discovery has recently commenced. On July 24, 2002, the parties were ordered to mediation and are to report back to the court on November 19, 2002. No trial date has been set.

We believe that we have meritorious defenses and intend to vigorously defend the action. Because the action is still in its early stages, we cannot at this time provide an estimate of the range of potential gain or loss, or the probability of a favorable or unfavorable outcome.

6. AMORTIZATION OF DEFERRED COMPENSATION:

In connection with the grant of restricted stock to employees in March 2002, we recorded deferred stock compensation of $374,000, representing the fair value of our common stock on the date the restricted stock was granted. Such amount is presented as a reduction of stockholders’ equity and is amortized ratably over the vesting period of the applicable shares through March 2005. Subsequent to the issuance of the restricted stock, employee terminations resulted in the reversal of $32,000 from deferred stock compensation.

In connection with the grant of restricted stock to employees in 2001, we recorded deferred stock compensation of $1.8 million, representing the fair value of our common stock on the date the restricted stock was granted. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable shares. Subsequent to the issuance of the restricted stock, employee terminations resulted in the reversal of $951,000 from deferred stock compensation. The remaining deferred stock compensation is amortized ratably over the vesting period of the applicable shares through the fourth quarter of 2003.

In connection with the grant of stock options to employees prior to our initial public offering in 1999, we recorded deferred stock compensation of $5.4 million, representing the difference between the exercise price and deemed fair value of our common stock on the date these stock options were granted. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable options. The remaining deferred stock compensation is amortized ratably over the vesting period of the applicable shares through the second quarter of 2003.

For the three and nine months ended September 30, 2002 and 2001, amortization of deferred compensation (in thousands) relates to the following functional categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Research and development	$ 39	$ 20	$112	$ 85
Sales and marketing	41	29	112	167
General and administrative	90	240	304	591
	$170	$289	$528	$843

The amount of deferred stock compensation expense to be recorded in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

7. STOCK REPURCHASES:

In August 2002, the Board of Directors authorized the repurchase of up to 1,000,000 shares of our common stock. During the three months ended September 30, 2002, we repurchased 125,800 shares of our outstanding common stock for approximately $740,000. The repurchased shares are retired immediately after the repurchases.

PCTEL, Inc.

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

The following information should be read in conjunction with the condensed interim financial statements and the notes thereto included in Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 1, 2002. Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses and revenue mix. These forward looking statements include, among others, those statements including the words, "may," "will," "plans," "seeks," "expects," "anticipates," "intends," "believes" and words of similar import, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us described below and elsewhere in this Quarterly Report, and in other documents we file with the SEC. Factors that might cause future results to differ materially from those discussed in the forward looking statements include, but are not limited to, those discussed in "Factors Affecting Operating Results" and elsewhere in this Quarterly Report.

Overview

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

Our strategy is to broaden product offerings that enable cost-effective access in both wired and wireless environments. In May 2002, we acquired the assets of cyberPIXIE, Inc. ("cyberPIXIE"), a wireless access provider. The acquisition of cyberPIXIE is consistent with our strategy and permits us to participate in a new emerging market. As a result of the acquisition, we obtained products and technology that will enable roaming between and among 802.11 wireless and cellular networks.

Our wireless product portfolio consists of both PC client and network infrastructure products. Our wireless client product is a PC based software solution that facilitates roaming and connection to wireless networks. These networks may be public wireless local area network ("WLAN") hotspots, and cellular data networks (wireless wide area networks), as well as private enterprise and home WLANs. Our client products are offered as custom branded offerings associated with a particular carrier and typically includes carrier specific 'service finder' location databases. Our client product offers a superior end user experience while simultaneously reducing the costs associated with typical end user support problems that our product addresses.

Our infrastructure products consist of software programs and third party computing platforms (embedded or PC servers) that enable the deployment of public WLANs. Our gateway product aggregates WLAN traffic from multiple access points, supports proprietary end user features, provides location specific content, and supports industry standard radius compliant end user authentication and accounting. Our WLAN controller further aggregates gateway traffic and provides storage for end user databases, subscription plans, and central control of gateway management functions.

We sell soft modems to manufacturers and distributors principally in Asia through our sales personnel, independent sales representatives and distributors. Our sales to manufacturers and distributors in Asia were 91%, 91% and 99% of our total sales for the years ended 2001, 2000 and 1999, respectively, and 84% and 92% for the nine months ended September 30, 2002 and 2001, respectively. The predominance of our sales is in Asia because our customers are primarily motherboard and modem manufacturers, and the majority of these manufacturers are located in Asia. In many cases, our indirect original equipment manufacturer customers specify that our products be included on the modem boards or motherboards that they purchase from the board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect original equipment manufacturer customers, both in the United States and internationally.

The economic downturn that began in 2000 and has continued throughout 2002 has adversely affected our business and operating results. In particular, since the fourth quarter of 2000, our customers, primarily our PC motherboard and distribution manufacturers, have been adversely impacted by significantly lower PC demand which has, in turn, lowered demand for our products. As a result, our revenues decreased from $97.2 million in 2000 to $41.0 million in 2001. Revenues for the three and nine months ended September 30, 2002 were $12.5 million and $32.4 million, respectively. Partly as a consequence of the economic slowdown, during 2001, we reduced our headcount from 198 personnel at the end of 2000 to 108 at the end of 2001. We further reduced our headcount in the quarter ended June 30, 2002 by an additional 20 persons. Because we expect PC demand to continue to be weak for the foreseeable term, we expect our revenue and earnings to continue to be negatively affected by these economic conditions.

Our sales are concentrated among a limited number of customers and the loss of one or more of these customers could cause our revenues to decrease. In 2002, we have broadened our customer base such that five customers accounted for 86% of our revenue for the nine months ended September 30, 2002, compared to four customers accounting for 82% of our revenue for the nine months ended September 30, 2001. Continuing decreases in the average selling prices of our products could result in decreased revenue as well.

As of September 30, 2002, we have $44.0 million and $68.2 million in cash and cash equivalents and short-term investments, respectively, that potentially subject us to credit and market risks. To mitigate credit risk related to short-term investments, we have an investment policy to preserve the value of capital and generate interest income from these investments without undue exposure to risk fluctuations. Market risk is the potential loss due to the change in value of a financial instrument due to interest rates or equity prices. Our investment policy is to stipulate short durations, limiting interest rate exposure, and to benchmark performance against comparable benchmarks. We maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations with ratings of A or better and money market funds.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 to the condensed consolidated financial statements included in this Quarterly Report. The preparation of our condensed consolidated financial statements in accordance with generally accepted accounting principles requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty. Management bases its estimates and judgments on historical experience, market trends, and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

Revenues consist primarily of sales of products to OEMs and distributors. Revenues from sales to customers are recognized upon shipment when title and risk of loss passes to the customers, unless we have future obligations or have to obtain customer acceptance, in which case revenue is not recorded until such obligations have been satisfied or customer acceptance has been achieved. We provide for estimated sales returns and customer rebates related to sales to OEMs at the time of shipment. Customer rebates are recorded against receivables to the extent that the gross amount has not been collected by the end customer. Once the gross amount has been collected, the accrued customer rebate is then reclassified as accrued liabilities. As of September 30, 2002 and December 31, 2001, we have an allowance for customer rebates against accounts receivable of $399,000 and $200,000, respectively, and accrued customer rebates of $1.8 million and $2.1 million, respectively, presented as current liabilities on the balance sheet. Accrued customer rebates will be paid to the customers, upon request, in the future unless they are forfeited by the customer. Revenues from sales to distributors are made under agreements allowing price protection and rights of return on unsold products. We record revenue relating to sales to distributors only when the distributors have sold the product to end-users. Customer payment terms generally range from letters of credit collectible upon shipment to open accounts payable 60 days after shipment.

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

Inventory Write-downs and Recoveries

Due to the changing market conditions, recent economic downturn and technological innovation, inventory write-downs of $10.9 million were recorded in the second half of 2001. Given the volatility of the market, the age of the inventories on hand and the expected introduction of new products in 2002, we wrote down excess inventories to net realizable value based on forecasted demand and firm purchase order commitments from our major suppliers. Actual demand may differ from forecasted demand and such difference may have a material effect on our financial position and results of operations. For the three and nine months ended September 30, 2002, we did not record any additional inventory write-downs. We sold part of the written down inventories and recovered $3.8 million and $5.3 million of the former write-downs for the three and nine months ended September 30, 2002, respectively. As of September 30, 2002, the cumulative write-down for excess inventory on hand was $4.0 million. In addition to the write-down of excess inventory, we also write down obsolete inventory. As of September 30, 2002, the cumulative write-down for obsolete inventory on hand was $1.2 million.

Accrued Royalties

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

As of September 30, 2002 and December 31, 2001, we had accrued royalties of approximately $3.5 million and $12.3 million, respectively. However, the amounts accrued may be inadequate and we will be required to take a charge if royalty payments are settled at a higher rate than expected. In addition, settlement arrangements may require royalties for both past and future sales of the associated products. If this is the case, in addition to a charge if our accrual is inadequate, our gross margins will decrease on these future product sales. As a result of the litigation settlement with Dr. Brent Townshend in March 2002, we made a cash royalty payment of $14.3 million related to past liability and prepayment of future liabilities to Dr. Townshend. The settlement did not have a material adverse impact on the results of operations. As of September 30, 2002, we have classified the prepayment as other assets, of which $1.1 million represents the current portion and $2.6 million represents the long-term portion.

Income Taxes

We currently have subsidiaries in the Cayman Islands, Japan, France, Taiwan and Yugoslavia as well as branch offices in Taiwan and Korea. The complexities brought on by operating in several different tax jurisdictions inevitably lead to an increased exposure to worldwide tax challenges. We are in the process of liquating the subsidiary in the Cayman Islands to simplify our tax structure. Should the tax authorities challenge us and the tax challenges result in unfavorable outcomes, our operating results and financial position could be materially and adversely affected.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes, which involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Significant management judgment is required to assess the likelihood that our deferred tax assets will be recovered from future taxable income. We maintain a full valuation allowance against our deferred tax assets. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

Results of Operations

Three and nine months ended September 30, 2002 and 2001
(All amounts in tables, other than percentages, are in thousands)

Revenues

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Revenues	$12,548	$4,738	$32,447	$33,444
% change from year ago period	164.8%		(3.0)%	

Our revenues primarily consist of product sales of soft modems to board manufacturers and distributors in Asia. Revenues increased $7.8 million for the three months ended September 30, 2002 compared to the same period in 2001. The revenue increase was primarily due to stronger modem sales and improved licensing revenue. Revenues for the nine months ended September 30, 2002 decreased by $1.0 million compared to the same period in 2001. The revenue decrease was primarily attributable to weak demand in the PC market due to poor economic conditions globally. Additionally, the decrease in sales revenues was due to downward pressure on average selling prices commonly seen in the industry.

Gross Profit

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Gross profit	$ 8,862	$(11,620)	$19,520	$(3,146)
Percentage of revenues	70.6%	(245.2)%	60.2%	(9.4)%
% change from year ago period	(176.3)%		(720.5)%	

Cost of revenues consists primarily of chipsets we purchase from third party manufacturers and also includes accrued intellectual property royalties, cost of operations, provision for inventory obsolescence and distribution costs. Provision for inventory losses are also included in the determination of gross profit.

Gross profit increased $20.5 million and $22.7 million for the three and nine months ended September 30, 2002 compared to the same periods in 2001 primarily as a result of the provision for inventory losses of $11.3 million in the third quarter of 2001 and inventory recovery of $3.8 million and $5.3 million for the three and nine months ended September 30, 2002, offset by the decreasing average selling prices commonly seen in the industry. Gross profit as a percentage of revenues increased from (245.2)% for the three months ended September 30, 2001 to 70.6% for the three months ended September 30, 2002 and increased from (9.4)% for the nine months ended September 30, 2001 to 60.2% for the nine months ended September 30, 2002 for the same reasons. To a lesser extent, gross profit as a percentage of revenues was favorably impacted due to the elimination of goodwill amortization related to the Communications Systems Division (“CSD”) acquisition as a result of impairment charges recorded on such goodwill in the third quarter of fiscal 2001 and increased levels of licensing revenue in 2002. As a percentage of revenues, we expect gross profit to decrease for the remainder of the year as a result of the decreasing average selling prices commonly seen in the industry.

Research and Development

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Research and development	$2,477	$2,824	$7,634	$9,102
Percentage of revenues	19.7%	59.6%	23.5%	27.2%
% change from year ago period	(12.3)%		(16.1)%	

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

Research and development expenses decreased by $0.3 million and $1.5 million for the three and nine months ended September 30, 2002 compared to the same periods in 2001 primarily because of decreased personnel expenses as a result of the reductions in force that occurred in fiscal year 2001 and the savings from the closure of the Connecticut engineering center in June 2002. In 2002, we expanded our research and development efforts to include wireless products and software and continued our research and development on the introduction of next generation analog modems. As a percentage of revenues, research and development costs decreased for the three and nine months ended September 30, 2002 for the same reasons as above. As a percentage of revenues, we expect research and development costs to remain the same for the remainder of the year as the savings from the closure of the Connecticut engineering center in the second quarter of 2002 are offset by additional research and development costs associated with the wireless products and software.

Sales and Marketing

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Sales and marketing	$1,904	$2,322	$5,395	$9,011
Percentage of revenues	15.2%	49.0%	16.6%	26.9%
% change from year ago period	(18.0)%		(40.1)%	

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

Sales and marketing expenses decreased $0.4 million and $3.6 million for the three and nine months ended September 30, 2002 compared to the same periods in 2001. Sales and marketing expenses as a percentage of revenues decreased for the three and nine months ended September 30, 2002 compared to the same period in 2001. The decrease in spending is primarily due to decreased personnel expenses as a result of the reductions in force that occurred in fiscal year 2001 and the second quarter of 2002. As a percentage of revenues, we expect sales and marketing costs to remain the same for the remainder of the year.

General and Administrative

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
General and administrative	$1,248	$3,665	$3,856	$8,746
Percentage of revenues	9.9%	77.4%	11.9%	26.2%
% change from year ago period	(65.9)%		(55.9)%	

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

General and administrative expenses decreased $2.4 million and $4.9 million for the three and nine months ended September 30, 2002 compared to the same periods in 2001. The decreases were primarily due to decreased legal costs associated with the patent infringement litigation against Smart Link, ESS Technology and Dr. Brent Townshend which were settled in May 2001, February 2002 and March 2002, respectively, and a decrease in headcount in 2001 and 2002. As a percentage of revenues, we expect general and administrative costs to remain the same for the remainder of the year.

Amortization of Goodwill and Other Intangible Assets

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Amortization of goodwill and intangible assets	$ 50	$1,027	$ 50	$2,922
Percentage of revenues	0.4%	21.7%	0.2%	8.7%
% change from year ago period	(95.1)%		(98.3)%	

In prior years, we purchased assets or businesses that resulted in the creation of intangible assets. In the second half of 2001, pursuant to SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,” we evaluated the recoverability of the long-lived assets, including intangibles, acquired from CSD, Voyager Technologies Inc. (“Voyager”) and BlueCom Technology Corporation (“BlueCom”), and recorded impairment charges totaling $16.8 million. As a result of the impairment charges, the carrying value of these entities’ goodwill was reduced to approximately $0.4 million.

In May 2002, we acquired the assets of Chicago-based cyberPIXIE, Inc. for a total of $1.6 million in cash. The purchase price of $1.6 million was allocated to the assets acquired and liabilities assumed at their estimated fair values on the date of acquisition. The acquisition was accounted for under the purchase method of accounting. Under the purchase method of accounting, if the purchase price exceeds the net tangible assets acquired, the difference is recorded as excess purchase price and allocated to in-process research and development, goodwill and other intangible assets. In this circumstance, the difference was $1.4 million. We attributed $102,000 of the excess purchase price to in-process research and development and the balance of $1.3 million to goodwill ($863,000) and developed technology ($452,000). We have classified this balance of $1.3 million as goodwill and other intangible assets, net, in the accompanying consolidated balance sheets and are amortizing the developed technology over a useful life of three years.

Effective January 1, 2002, we have adopted the provisions of SFAS No. 142, “Goodwill and Other Intangibles,” under which goodwill is no longer being amortized and will be tested for impairment at least annually. As a result of the adoption of SFAS No. 142, amortization of goodwill and intangible assets decreased from $1.0 million and $2.9 million for the three and nine months ended September 30, 2001, respectively, to $50,000 for both the three and nine months ended September 30, 2002.

Restructuring Charges

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Restructuring charges	$ 88	$ 274	$ 735	$2,381
Percentage of revenues	0.7%	5.8%	2.3%	7.1%
% change from year ago period	(67.9)%		(69.1)%	

On February 8, 2001, we announced a series of actions to streamline support for our voiceband business and sharpen our focus on emerging growth sectors. These measures were part of a restructuring program and included a reduction in worldwide headcount of a total of 22 employees (consisting 7 research and development employees, 9 sales and marketing employees and 6 general and administrative employees), a hiring freeze and cost containment programs. On May 1, 2001, we announced a new business structure to provide for greater focus on our activities with a significantly reduced workforce. A total of 42 positions were eliminated as part of this reorganization (consisting of 13 research and development, 12 sales and marketing and 17 general and administrative positions).

The restructuring resulted in charges of $274,000 and $2.1 million for the three and nine months ended September 30, 2001, consisting of severance and employment related costs and costs related to closure of excess facilities as a result of the reduction in force. We reversed $78,000 of the fiscal year 2001 restructuring charges in the second quarter of 2002 as a result of adjustments made.

In June 2002, we further reduced worldwide headcount by 20 employees (consisting of 13 research and development employees, 5 sales and marketing employees and 2 general and administrative employees). In September 2002, we have also announced our intention to move our corporate headquarter to Chicago, Illinois. As a result of the move, 5 general and administrative employees will be replaced, resulting in additional severance and employment related costs. The relocation and restructuring resulted in additional charges of $88,000 and $813,000 consisting of severance and employment related costs and costs related to closure of excess facilities as a result of the reduction in force and the headquarter move for the three and nine months ended September 30, 2002, respectively. Net restructuring charges for the three and nine months ended September 30, 2002 were $88,000 and $735,000, respectively, after taking into account the reversal of $78,000 in restructuring charges explained above.

Amortization of Deferred Compensation

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Amortization of deferred compensation	$ 170	$ 289	$ 528	$ 843
Percentage of revenues	1.4%	6.1%	1.6%	2.5%
% change from year ago period	(41.2)%		(37.4)%	

In connection with the grant of restricted stock to employees in 2002, we recorded deferred stock compensation of $374,000, representing the fair value of our common stock on the date the restricted stock was granted. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable shares.

In connection with the grant of restricted stock to employees in 2001, we recorded deferred stock compensation of $1.8 million, representing the fair value of our common stock on the date the restricted stock was granted. Such amount is presented as a reduction of stockholders' equity and is amortized ratably over the vesting period of the applicable shares.

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

The amortization of deferred stock compensation decreased $119,000 and $315,000 for the three and nine months ended September 30, 2002 compared to 2001 primarily due to the termination of employees in 2002, offset by additional expenses related to the restricted stock grants in 2001 and 2002. We expect the amortization of deferred stock compensation to be approximately $160,000 per quarter through 2003, based on restricted stock grants and stock option grants through September 30, 2002. The amount of deferred stock compensation expense to be recorded in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited. If we grant additional restricted stock, the amortization of deferred compensation will increase.

Other Income, Net

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Other income, net	$ 641	$1,409	$2,631	$4,875
Percentage of revenues	5.1%	29.7%	8.1%	14.6%
% change from year ago period	(54.5)%		(46.0)%	

Other income, net, consists of interest income, net of interest expense. Interest income is expected to fluctuate over time. Other income, net, decreased $768,000 and $2.2 million for the three and nine months ended September 30, 2002 compared to the same periods in 2001 primarily due to the decrease in interest rates and lower average cash balances in 2002.

Provision for Income Taxes

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Provision for income taxes	$ 352	$5,274	$415	$5,290

The realization of deferred tax assets is dependent on future profitability. During the third quarter of 2001, we recorded $5.3 million of provision for income taxes to establish valuation allowances against deferred tax assets in accordance with the provisions of FASB No. 109, "Accounting for Income Taxes" as a result of uncertainties regarding realizability.

Liquidity and Capital Resources

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Net cash provided by (used in) operating activities	$ (12,937)	$ 8,453
Net cash provided by investing activities	16,673	5,741
Net cash provided by financing activities	1,898	2,521
Cash, cash equivalents and short-term investments at the end of period	112,206	129,317
Working capital at the end of period	107,636	131,029

The decrease in net cash provided by operating activities for the nine months ended September 30, 2002 compared to the same period in 2001 was primarily due to the $14.3 million settlement payment in relation to the litigation with Dr. Brent Townshend in March 2002. Net cash provided by investing activities for the nine months ended September 30, 2002 consists primarily of proceeds from the sales and maturities of the short-term investments, net of purchases of short-term investments. Net cash provided by financing activities for the nine months ended September 30, 2002 consists of proceeds from the issuance of common stock associated with stock option exercises and from share purchases through the employee stock purchase plan, offset by shares repurchased by PCTEL.

In August 2002, the Board of Directors authorized the repurchase of up to 1,000,000 shares of our common stock. During the three months ended September 30, 2002, we repurchased 125,800 shares of our outstanding common stock for approximately $740,000.

As of September 30, 2002, we had $112.2 million in cash, cash equivalents and short-term investments and working capital of $107.6 million. Accounts receivable, as measured in days sales outstanding, was 30 days at September 30, 2002 compared to 60 days in September 30, 2001. The decrease in days sales outstanding from September 30, 2001 to 2002 was primarily due to the increased cash collection efforts throughout 2001 and the nine months of 2002.

We believe that our existing sources of liquidity, consisting of cash, short-term investments and cash from operations, will be sufficient to meet our working capital needs for the foreseeable future. We will continue to evaluate opportunities for development of new products and potential acquisitions of technologies or businesses that could complement our business. We may use available cash or other sources of funding for such purposes. However, possible investments in or acquisitions of complementary businesses, products or technologies, or cash settlements resulting from new litigation, may require us to use our existing working capital or to seek additional financing. In addition, if the current economic downturn prolongs, we will need to continue to expend our cash reserves to fund our operations. As of September 30, 2002, we have non-cancelable operating leases for office facilities of $1.0 million through 2005, unpaid restructuring (termination compensation) of $115,000 through January 2003 and no outstanding firm inventory purchase contract commitments with our major suppliers.

Factors Affecting Operating Results

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

Risks Related to Our Business

Our business and our ability to grow revenues have been adversely impacted by the economic slowdown and related uncertainties affecting markets in which we operate.

Since the fourth quarter of 2000, our customers, primarily our PC motherboard and distribution manufacturers, have been impacted by significantly lower PC demand. As a result, our revenues and earnings in fiscal year 2001 and the first three quarters of 2002 were negatively affected. Because we expect PC demand to continue to be weak for the foreseeable term, we expect our revenues and earnings to continue to be negatively affected by the adverse economic environment.

Adverse economic conditions worldwide have contributed to a technology industry slowdown, particularly a rapid deterioration in the demand for PCs, and have impacted our business, resulting in:

- reduced demand for most of our products,
- increased price competition for our products,
- increased risk of excess and obsolete inventories,
- excess facilities and manufacturing capacity, and
- higher overhead costs, as a percentage of revenues.

Recent political and social turmoil in many parts of the world, including actual incidents and potential future acts of terrorism and war, may continue to put pressure on global economic conditions. These political, social and economic conditions and uncertainties make it extremely difficult for PCTEL and for our customers to accurately forecast and plan future business activities and for us to forecast customer demand for our products. We must forecast and place purchase orders for specialized semiconductor chips several months before we receive purchase orders for our products from our own customers. This forecasting and order lead time requirement limits our ability to react to fluctuations in demand for our products. These fluctuations can be unexpected and may cause us to have excess inventory or a shortage of a particular product. This reduced predictability challenges our ability to operate profitably and to increase revenues. In particular, it is difficult to develop and implement strategies, sustainable business models and efficient operations, and it is difficult for us to effectively manage outsourced relationships. If the current economic or market conditions continue or further deteriorate, there could be additional material adverse impact on our financial position, revenues, results of operations and cash flow.

During the second half of 2001, due to the changing market conditions, recent economic downturn and technological innovation, a provision for inventory losses of $10.9 million was charged against operations. Given the volatility of the market, the age of the inventories on hand and the expected introduction of new products later in 2002, we wrote down inventories to net realizable value based on forecasted demand and firm purchase order commitments from our major suppliers in 2001. Actual demand may differ from forecasted demand and such difference may have a material effect on our financial position and result of operations.

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

Our sales are concentrated among a limited number of customers. If we were to lose one or more of these customers, or if one or more of these customers were to delay or reduce purchases of our products, our sales revenues may decrease. For the nine months ended September 30, 2002, approximately 86% of our revenues were generated by five of our customers, representing 27%, 26%, 16%, 9% and 8% of revenues, respectively. For the nine months ended September 30, 2001, approximately 82% of our revenues were generated by four of our customers, representing 57%, 16%, 5% and 4% of revenues, respectively. All of these customers may in the future decide not to purchase our products at all, purchase fewer products than they did in the past or alter their purchasing patterns, because, among other reasons:

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

We expect that a small number of customers will continue to account for a substantial portion of our revenues for at least the next 12 to 18 months and that a significant portion of our sales will continue to be made on the basis of purchase orders. Our number of customers may be reduced in the future through mergers in the PC OEM sector, such as the HP and Compaq merger completed in the first half of 2002.

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

Our sales to customers located in Asia accounted for 84% and 92% of our total revenues for the nine months ended September 30, 2002 and 2001, respectively, and 91% for fiscal 2001. The predominance of our sales is in Asia, mostly in Taiwan and China, because our customers are primarily motherboard or modem manufacturers that are located there. In many cases, our indirect original equipment manufacturer customers specify that our products be included on the modem boards or motherboards, the main printed circuit board containing the central processing unit of a computer system, that they purchase from board manufacturers, and we sell our products directly to the board manufacturers for resale to our indirect original equipment manufacturer customers, both in the United States and internationally. Due to the industry-wide concentration of modem manufacturers in Asia, we believe that a high percentage of our future sales will continue to be concentrated with Asian customers. As a result, our future operating results could be uniquely affected by a variety of factors outside of our control, including:

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

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

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

Our future success depends on our ability to develop and successfully introduce new and enhanced products, particularly, wireless products and technology, that meet the needs of our customers and achieve broad market acceptance.

Our revenue depends on our ability to anticipate our customers' needs and develop products that address those needs. In particular, our future success will depend on our ability to introduce new products for the wireless market, anticipate improvements and enhancements in wireless technology and in WLAN standards, and to develop products that are competitive in the rapidly changing wireless market. Introduction of new products and product enhancements will require coordination of our efforts with those of our suppliers and manufacturers to rapidly achieve volume production. If we fail to coordinate these efforts, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our revenues may be reduced and our business may be harmed. We may not be successful in timely introducing new wireless products as a result of our relative inexperience in developing, marketing, selling and supporting these products. We cannot assure you that product introductions will meet the anticipated release schedules or that our wireless products will be competitive in the market. Furthermore, given the emerging nature of the wireless market, there can be no assurance our products and technology will not be rendered obsolete by alternative or competing technologies. If we are unable to successfully compete in a particular market with internally developed products, we may have to license technology from other businesses or acquire other businesses as an alternative to internal research and development.

Competition within the connectivity and wireless networking industries is intense and is expected to increase significantly. Our failure to compete successfully could materially harm our prospects and financial results.

The connectivity device and wireless markets are intensely competitive. We may not be able to compete successfully against current or potential competitors. Our current competitors include Agere Systems, Broadcom, Conexant, ESS Technology and Smart Link. We expect competition to increase in the future as current competitors enhance their product offerings, new suppliers enter the connectivity device and wireless markets, new communication technologies are introduced and as additional networks are deployed. In addition, our client software competes with software developed internally by Network Interface Card (NIC) vendors, service providers for local 802.11 networks, and with software developed by large systems integrators. Increased competition could adversely affect our business and operating results through pricing pressures, the loss of market share and other factors. The principal competitive factors affecting wireless markets include the following:

- maintaining effective data throughput and coverage area, interference immunity and network security and scalability,
- keeping product costs low while, at the same time, increasing roaming capability, decreasing power consumption and the size of products and improving product reliability, ease of use, brand recognition and product features and applications,
- integration with existing technology,
- maintaining industry standards and obtaining product certifications as wireless networks continue to become more sophisticated,
- decreasing product time to market,
- complying with changes to government regulations with respect to each country served and related to the use of radio spectrum, and
- obtaining favorable OEM partnerships, marketing alliances, effective distribution channels.

We could, in the future, be at a disadvantage to competitors in both the wireless and broadband markets that have broader distribution channels, brand recognition, extensive patent portfolios and more diversified product lines, particularly 3Com, Alcatel, Analog Devices, GlobespanVirata, Intersil and Proxim. Additionally, numerous companies have announced their intention to develop competing products in the connectivity products market, including several companies offering low-price WLAN products. Competitors in the market for products and technology that enable roaming between and among 802.11 wireless and cellular networks include Aptilo, Boing, BVRP, Cisco, Colubris, Funk, GRIC, IBM, iPass, ipUnplugged, Microsoft, NetnearU, Nokia, Nomadix, Pronto Networks, Sierra Wireless and Starfish. We could also face future competition from companies that offer alternative communications solutions, or from large computer companies, PC peripheral companies and other large networking equipment companies. Furthermore, we could face competition from certain of our customers, which have, or could acquire, wireless engineering and product development capabilities, or might elect to offer competing technologies. We can offer no assurance that we will be able to compete successfully against these competitors or that the competitive pressures we face will not adversely affect our business or operating results.

Many of our present and potential competitors have substantially greater financial, marketing, technical and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. These competitors may succeed in establishing technology standards or strategic alliances in the connectivity device and wireless markets, obtain more rapid market acceptance for their products, or otherwise gain a competitive advantage. We can offer no assurance that we will succeed in developing products or technologies that are more effective than those developed by our competitors. Furthermore, we compete with companies that have high volume manufacturing and extensive marketing and distribution capabilities that we do not possess. We can offer no assurance that we will be able to compete successfully against existing and new competitors as the connectivity wireless markets evolve and the level of competition increases.

Our business will depend on rapidly evolving telecommunications and Internet industries.

Our future success is dependent upon the continued growth of the data communications and wireless industries, particularly with regard to Internet usage. The global data communications and Internet industries are evolving rapidly and it is difficult to predict potential growth rates or future trends in technology development. We cannot assure you that the deregulation, privatization and economic globalization of the worldwide telecommunications market that has resulted in increased competition and escalating demand for new technologies and services will continue in a manner favorable to us or our business strategies. In addition, there can be no assurance that the growth in demand for wireless and Internet services, and the resulting need for high speed or enhanced data communications products and wireless systems, will continue at its current rate or at all.

Our revenue may decline and our ability to grow our business may be threatened if the demand for wireless services in general and WLAN products in particular does not continue to grow.

Our success in the wireless market is dependent on the continued trend toward wireless telecommunications and data communications services. If the rate of growth slows and service providers reduce their capital investments in wireless infrastructure or fail to expand into new geographic markets, our revenue may decline. Wireless access solutions are unproven in the marketplace and some of the wireless technologies have only been commercially introduced in the last few years. We only began offering wireless products in the second quarter of fiscal 2002. If wireless access technology turns out to be unsuitable for widespread commercial deployment, we may not be able to generate enough sales to achieve and grow our business. We have listed below some of the factors that we believe are key to the success or failure of wireless access technology:

- reliability and security of wireless access technology and the perception by end-users of its reliability and security,
- capacity to handle growing demands for faster transmission of increasing amounts of data, voice and video,
- the availability of sufficient frequencies for network service providers to deploy products at commercially reasonable rates,
- cost-effectiveness and performance compared to wire line or other high speed access solutions, whose prices and performance continue to improve,
- suitability for a sufficient number of geographic regions, and
- availability of sufficient site locations for wireless access.

The factors listed above influence our customers’ purchase decisions when selecting wireless versus other high speed access technology. For example, because of the frequency with which individuals using cellular phones experience fading or a loss of signal, customers often have the perception that all wireless technologies will have the same reliability constraints even though the wireless technology underlying wireless access products does not have the same problems as cellular phones. In some geographic areas, because of adverse weather conditions that affect wireless transmissions, but not wire line technologies, wireless products are not as successful as wire line technology. In addition, future legislation, legal decisions and regulation relating to the wireless telecommunications industry may slow or delay the deployment of wireless networks.

Wireless access solutions, including WLANs, compete with other high-speed access solutions such as digital subscriber lines, cable modem technology, fiber optic cable and other high-speed wire line and satellite technologies. If the market for our wireless solutions fails to develop or develops more slowly than we expect due to this competition, our sales opportunities will be harmed. Many of these alternative technologies can take advantage of existing installed infrastructure and are generally perceived to be reliable and secure. As a result, they have already achieved significantly greater market acceptance and penetration than wireless access technologies. Moreover, current wireless access technologies have inherent technical limitations that may inhibit their widespread adoption in many areas.

We expect wireless access technologies to face increasing competitive pressures from both current and future alternative technologies. In light of these factors, many service providers may be reluctant to invest heavily in wireless access solutions, including WLANs. If service providers do not continue to establish WLAN "hot spots," we may not be able to generate sales for our WLAN products and our revenue may decline.

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

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

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

Product sales in the connectivity industry have been characterized by continuing erosion of average selling prices. Price erosion experienced by any company can cause revenues and gross margins to decline. We believe that the average selling price of our products is likely to continue to decline in the future due principally to competition pressure. This pricing pressure will likely reduce our gross margins, adversely affect our operating results and may result in the decrease in the price of our stock.

In addition, we believe that the widespread adoption of industry standards in the soft modem industry is likely to further erode average selling prices, particularly for analog modems. Adoption of industry standards is driven by the market requirement to have interoperable modems. End-users need this interoperability to ensure modems from different manufacturers communicate with each other without problems. Historically, users have deferred purchasing modems until these industry standards are adopted. However, once these standards are accepted, it lowers the barriers to entry and price erosion results. Decreasing average selling prices in our products could result in decreased revenues even if the number of units that we sell increases. Therefore, we must continue to develop and introduce next generation products with enhanced functionalities that can be sold at higher gross margins. Our failure to do this could cause our revenues and gross margin to decline.

Our gross margins may vary based on the mix of sales of our products and licenses of our intellectual property, and these variations may hurt our net income.

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

We may experience integration or other problems with potential acquisitions, which could have an adverse effect on our business or results of operations. New acquisitions could dilute the interests of existing stockholders, and the announcement of new acquisitions could result in a decline in the price of our common stock.

We may in the future make acquisitions of, or large investments in, businesses that offer products, services, and technologies that we believe would complement our products or services, including in wireless products and technology. We may also make acquisitions of, or investments in, businesses that we believe could expand our distribution channels. Even if we were to announce an acquisition, we may not be able to complete it. Any future acquisition or substantial investment would present numerous risks, including:

- difficulty in integrating the technology, operations or work force of the acquired business with our existing business,
- disruption of our on-going business,
- difficulty in realizing the potential financial or strategic benefits of the transaction,
- difficulty in maintaining uniform standards, controls, procedures and policies,
- possible impairment of relationships with employees and customers as a result of integration of new businesses and management personnel, and
- impairment of assets related to resulting goodwill, and reductions in our future operating results from amortization of intangible assets.

We expect that future acquisitions could provide for consideration to be paid in cash, shares of our common stock, or a combination of cash and our common stock. If consideration for a transaction is paid in common stock, this would further dilute our existing stockholders.

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

We have experienced and expect to continue to experience seasonality in sales of our connectivity products. These seasonal trends materially affect our quarter-to-quarter operating results. Our revenues are typically higher in the third and fourth quarters due to back-to-school and holiday purchases as well as purchase decisions made based on the calendar year-end budgeting requirements of purchasers of our products.

We are currently expanding our sales in international markets, particularly in Asia and Europe. To the extent that our revenues in Asia, Europe or other parts of the world increase in future periods, we expect our period-to-period revenues to reflect seasonal buying patterns in these markets.

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

Sales cycles for our products with major customers are lengthy, often lasting nine months or longer. In addition, it can take an additional nine months or more before a customer commences volume production of equipment that incorporates our products. We expect sales cycles for our wireless products to be lengthy as well. Sales cycles with our major customers are lengthy for a number of reasons, including:

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

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

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

Our success is heavily dependent upon our proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. These means of protecting our proprietary rights may not be adequate. We have over 80 patents granted or pending addressing both essential International Telecommunications Union and non-essential technologies. These patents may never be issued. These patents, both issued and pending, may not provide sufficiently broad protection against third party infringement lawsuits or they may not prove enforceable in actions against alleged infringers.

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

We are subject to litigation regarding intellectual property, which has diverted management attention, is costly to defend and could prevent us from using or selling the challenged technology.

In recent years, there has been significant litigation in the United States involving intellectual property rights, including rights of companies in our industry. We have from time to time in the past received correspondence from third parties alleging that we infringe the third party's intellectual property rights. We expect these claims to increase as our intellectual property portfolio become larger. Intellectual property claims against us, and any resulting lawsuit, may result in our incurring significant expenses and could subject us to significant liability for damages and invalidate what we currently believe are our proprietary rights. These lawsuits, regardless of their merits or success, would likely be time-consuming and expensive to resolve and could divert management's time and attention. Any potential intellectual property litigation against us could also force us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the infringed intellectual property,
- obtain from the holder of the infringed intellectual property a license to sell or use the relevant technology, which license may not be available on acceptable terms, if at all, or
- redesign those products or services that incorporate the disputed intellectual property, which could result in substantial unanticipated development expenses.

If we are subject to a successful claim of infringement and we fail to develop non-infringing intellectual property or license the infringed intellectual property on acceptable terms and on a timely basis, our revenues could decline or our expenses could increase.

We may in the future initiate claims or litigation against third parties for infringement of our intellectual property rights or to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors. These claims could also result in significant expense and the diversion of technical and management personnel's attention.

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

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

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

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

Competition for personnel, especially qualified engineering personnel, is intense. We are particularly dependent on our ability to identify, attract, motivate and retain qualified engineers with the requisite education, background and industry experience. As of September 30, 2002, we employed a total of 45 people in our engineering department. If we lose the services of one or more of our key engineering personnel, our ability to continue to develop products and technologies responsive to our markets will be impaired.

We may have to continue to reduce our headcount, which may hinder our ability to develop and grow our business, which may ultimately affect our ability to be profitable.

In 2001, we reduced our workforce by 90 employees. In 2002, we further reduced our workforce by 20 employees. If economic conditions and the PC market do not improve, or if we decide to pursue new business structures or focus on different sectors, we may need to reduce our workforce further. This may result in, as it has in the past, additional charges and costs relating to severance and employment costs, as well as the closure of excess facilities. If such an action is taken, it may temporarily inhibit our ability to develop new products, our profitability and our ability to attract and retain other employees.

We have put in place cost reduction programs to reduce our expenses for the host signal processing businesses. We may have to continue to reduce our expenses in this business, which may hinder our ability to become profitable.

As part of the cost reduction programs put in place on the host signal processing business in 2001 and 2002, we reduced our workforce by 90 employees in 2001 and an additional 20 employees in 2002. If economic conditions and the PC market do not improve, we may need to continue to reduce expenses relating to the host signal processing business. This may result in, as it has in the past, additional charges and costs relating to severance and employment costs, as well as the closure of excess facilities. If such an action is taken, it may temporarily inhibit our ability to become profitable.

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

We do not have our own manufacturing, assembly or testing operations. Instead, we rely on independent companies to manufacture, assemble and test the semiconductor chips that are integral components of our products. Most of these companies are located outside of the United States. There are many risks associated with our relationships with these independent companies, including reduced control over:

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

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

We design, market and sell application-specific integrated circuits and outsource the manufacturing and assembly of the integrated circuits to third party fabricators. The majority of our products and related components are manufactured by three principal companies: Taiwan Semiconductor Manufacturing Corporation, ADMTek and Silicon Laboratories Inc. We expect to continue to rely upon these third parties for these services. Currently, the data access arrangement chips used in our soft modem products are provided by a sole source, Silicon Laboratories, on a purchase order basis, and we have only a limited guaranteed supply of data access arrangement chips through a long-term business arrangement with Silicon Laboratories. We have no guaranteed supply or long-term contract agreements with any of our other suppliers. Although we believe that we would be able to qualify an alternative manufacturing source for data access arrangement chips within a relatively short period of time, this transition, if necessary, could result in loss of purchase orders or customer relationships, which could result in decreased revenues. In addition, many of the potential alternative sources of components for our products that could potentially provide us with components have existing relationships with our competitors or potential competitors and may be unwilling to enter into agreements with us. If our relationship with Silicon Laboratories, or any relationship we enter in the future with other manufacturers, is impaired for competitive reasons or otherwise, this could prevent us from being able to deliver our products, damage our customer relationships and materially adversely affect our operating results and financial condition.

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

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

Our financial position and results of operations may be adversely affected if tax authorities challenge us and the tax challenges result in unfavorable outcomes.

We currently have subsidiaries in the Cayman Islands, Japan, France, Taiwan and Yugoslavia as well as branch offices in Taiwan and Korea. The complexities brought on by operating in several different tax jurisdictions inevitably leads to an increased exposure to worldwide tax challenges. Should the tax authorities challenge us and the tax challenges result in unfavorable outcomes, our operating results and financial position could be materially and adversely affected.

Our California facilities and the facilities of some of the independent companies upon which we rely to manufacture, assemble and test our products are located in regions that are subject to earthquakes and other natural disasters.

Our California facilities are located near major earthquake fault lines. If there is a major earthquake or any other natural disaster in a region where one of our facilities is located, it could significantly disrupt our operations in that region. In addition, some of the independent companies upon which we rely to manufacture substantially all of our products are located outside of the United States in places that have experienced significant earthquakes in the past and could be subject to additional earthquakes. Any earthquake or other natural disaster in regions where the companies that manufacturer, assemble and test our products are located could materially disrupt production capabilities and could result in our experiencing a significant delay in delivery, or substantial shortage, of our products.

Risks Related to Our Industry

If the market for products using our host signal processing technology does not grow as we plan, or if our products are not accepted in these markets, our revenues may be adversely affected.

Our success depends on market demand and growth patterns for products using our host signal processing, or HSP, technology in soft analog modems. Market success for our products depends primarily on cost and performance benefits relative to competing solutions. Although we have shipped a significant number of soft modems since we began commercial sales of these products, the current level of demand for soft modems may not be sustained or may not grow. Further, our success in the soft modem market is dependent on developing, selling and supporting next generation products and applications. If these new products are not accepted in the markets as they are introduced, our revenues and profitability will be negatively affected.

If the wireless market does not grow as we plan, or if our wireless products are not accepted in these markets, our revenues may be adversely affected.

Our future success depends on market demand and growth patterns for products using wireless technology. Our wireless products may not be successful as a result of the following reasons:

- intense competition in the wireless market,
- our relative inexperience in developing, marketing, selling and supporting these products, and
- inability of these products to complement our legacy business.

If these new wireless products are not accepted in the markets as they are introduced, our revenues and profitability will be negatively affected.

Our industry is characterized by rapidly changing technologies. If we are not successful in response to rapidly changing technologies, our products may become obsolete and we may not be able to compete effectively.

The Internet access business is characterized by rapidly changing technologies, short product life cycles and frequent new product introductions. To remain competitive, we have successfully introduced several new products with advanced technologies since PCTEL was founded. We continue to develop and sell advanced analog modem products in order to remain competitive in our core business.

The market for high speed Internet connectivity is also characterized by rapidly changing technologies and strong competition, such as broadband and wireless solutions, which provide higher modem speeds and faster Internet access. While these alternative technologies offer much faster data rates, they are comparatively more costly than analog modems. They are also not as widely available in the world markets. We will continue to evaluate, develop and introduce technologically advanced products that will position us for possible growth in the Internet access market. If we are not successful in response to rapidly changing technologies, our products may become obsolete and we may not be able to compete effectively.

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

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

Risks Related to our Common Stock

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

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

- actual or anticipated variations in quarterly operating results,
- announcements of technological innovations,
- new products or services offered by us or our competitors,
- changes in financial estimates by securities analysts,

- conditions or trends in our industry,
- our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- additions or departures of key personnel,
- mergers and acquisitions, and
- sales of common stock by us or our stockholders.

In addition, the Nasdaq National Market, where many publicly held telecommunications companies, including PCTEL, are traded, often experiences extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. In the past, following periods of volatility in the market price of an individual company's securities, securities class action litigation often has been instituted against that company. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources.

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

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

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

PCTEL, Inc.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks. We manage the sensitivity of our results of operations to these risks by maintaining a conservative investment portfolio, which is comprised solely of highly-rated, short-term investments. We do not hold or issue derivative, derivative commodity instruments or other financial instruments for trading purposes. We are exposed to currency fluctuations, as we sell our products internationally. We manage the sensitivity of our international sales by denominating all transactions in U.S. dollars. Our exposure to foreign exchange rate fluctuations arises in part from translation of the financial statements of foreign subsidiaries into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations for the year ended December 31, 2001 and the nine months ended September 30, 2002 was not material.

We are exposed to interest rate risks as we have investments in both fixed rate and floating rate interest earning instruments. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rate.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including both government and corporate obligations with ratings of A or better, and money market funds. We have accumulated a $381,000 unrealized holding gain as of September 30, 2002.

PCTEL, Inc.

Item 4: Controls and Procedures

Based upon their evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Exchange Act) as of November 13, 2002, our chief executive officer and chief financial officer have concluded that, our disclosure controls and procedures effectively ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information 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. In addition, there were no changes in our internal controls or in other factors that could have significantly affected those controls subsequent to November 13, 2002.

PCTEL, Inc.

Part II. Other Information
For the Three and Nine Months Ended: September 30, 2002

Item 1 Legal Proceedings: *Ronald H. Fraser v. PC-Tel, Inc., Wells Fargo Shareowner Services, Wells Fargo Bank Minnesota, N.A.*

On March 19, 2002, plaintiff Ronald H. Fraser filed a Verified Complaint (the "Complaint") in Santa Clara County (California) Superior Court for breach of contract and declaratory relief against us, and for breach of contract, conversion, negligence and declaratory relief against our transfer agent, Wells Fargo Bank Minnesota, N.A ("Wells Fargo"). The Complaint seeks compensatory damages allegedly suffered by Mr. Fraser as a result of the tax liability from failure to facilitate transaction by Mr. Fraser during a secondary offering on April 14, 2000. Wells Fargo filed a Verified Answer to the Complaint on June 12, 2002. On July 10, 2002, we filed a Verified Answer to the Complaint, denying Mr. Fraser's claims and asserting numerous affirmative defenses. Discovery has recently commenced. On July 24, 2002, the parties were ordered to mediation and are to report back to the court on November 19, 2002. No trial date has been set.

We believe that we have meritorious defenses and intend to vigorously defend the action. Because the action is still in its early stages, we cannot at this time provide an estimate of the range of potential gain or loss, or the probability of a favorable or unfavorable outcome.

Item 4 Submission of Matters to a Vote of Security Holders: N/A

Item 6 Exhibits and reports on Form 8-K

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

Exhibit Number		Description
10.35	(a)	Lease agreement dated July 30, 2002 between PCTEL, Inc. and ASP Wheelie, LLC for an office building located at O'Hare Plaza, 8725 West Higgins Road, Chicago, IL 60631
99.1	(a)	Certification of Chief Executive Officer and Chief Financial Officer

(a) Filed herewith.

(b) Reports on Form 8-K: None

SIGNATURES

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.
Delaware Corporation

November 13, 2002	By:	/s/ John Schoen
		John Schoen Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)

I, Martin H. Singer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PCTEL, Inc.

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Martin H. Singer

Martin H. Singer
Chief Executive Officer

I, John Schoen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PCTEL, Inc.

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ John Schoen

John Schoen
Chief Operating Officer and Chief Financial Officer

Exhibit Index

Exhibit Number		Description
10.35	(a)	Lease agreement dated July 30, 2002 between PCTEL, Inc. and ASP Wheelie, LLC for an office building located at O'Hare Plaza, 8725 West Higgins Road, Chicago, IL 60631
99.1	(a)	Certification of Chief Executive Officer and Chief Financial Officer

(a) Filed herewith.

Exhibit 10.35

LEASE BETWEEN

ASP WHEELIE, L.L.C.

AND

PCTEL, INC.

FOR SPACE AT

O'Hare Plaza, 8725 West Higgins Road

Chicago, Illinois

July 30, 2002

DATE

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LIST OF SCHEDULES

LEASE

This Lease is made as of July 30, 2002, between ASP WHEELIE, L.L.C., a Delaware limited liability company ("LANDLORD"), and PCTEL, INC., a Delaware corporation ("TENANT").

ARTICLE ONE
DEFINITIONS, SCHEDULES AND ADDENDA

1.1 DEFINITIONS

a. LEASED PREMISES shall mean Suite 400, as depicted in SCHEDULE 1.

b. BUILDING shall mean the 8725 Building located at 8725 West Higgins Road, Chicago, Illinois 60631.

c. PROJECT shall mean O'Hare Plaza located at 8725, 8735 and 8745 West Higgins Road, Chicago, Illinois 60631.

d. TENANT'S SQUARE FOOTAGE shall mean approximately 12,624 rentable square feet; TOTAL SQUARE FOOTAGE of the Project shall mean approximately 473,646 rentable square feet.

e. LEASE COMMENCEMENT DATE shall mean the earlier of September 1, 2002, or the date on which the Leasehold Improvement have been Substantially Completed (as such terms are defined in SCHEDULE 6); LEASE EXPIRATION DATE shall mean the fifth (5th) anniversary of the Lease Commencement Date; LEASE TERM shall mean the period between Lease Commencement Date and Lease Expiration Date.

f. BASE RENT shall mean the following:

YEAR	ANNUAL RENTAL RATE PSF	ANNUAL RENT	MONTHLY RENT
1	$27.00	$340,848.00	$28,404.00
2	$27.50	$347,160.00	$28,930.00
3	$28.00	$353,472.00	$29,456.00
4	$28.50	$359,784.00	$29,982.00
5	$29.00	$366,096.00	$30,508.00

g. TENANT'S PRO RATA SHARE shall mean 2.665%. BASE YEAR shall mean the calendar year during which the Lease Commencement occurs. The prorata share is determined by the Tenant's Square Footage listed in Section 1.1(d) divided by the Total Square Footage of the Project.

h. DEPOSIT shall mean the $347,160.00 Letter of Credit (as defined in and subject to reduction as described in Section 3.2 below).

i. PERMITTED PURPOSE shall mean general office use.

j. AUTHORIZED NUMBER OF PARKING SPACES shall mean, throughout the initial Lease Term, four (4) reserved spaces at a rate of $-0- per space per month in the mall level garage. In addition, Tenant shall have the right to use the non-reserved spaces at the Project as set forth in Section 5.1 hereof, which non-reserved spaces shall be made available to Tenant without charge.

k. MANAGING AGENT shall mean Transwestern Commercial Services whose address is 8725 West Higgins Road, Suite 105, Chicago, Illinois 60631.

l. BROKER OF RECORD shall mean U.S. Equities Realty.

m. COOPERATING BROKER shall mean The John Buck Company.

n. LANDLORD'S MAILING ADDRESS: ASP Wheelie, L.L.C., c/o Terrabrook, 3030 LBJ Freeway, Suite 1500, Dallas, Texas 75234.

o. TENANT'S MAILING ADDRESS: PCTEL, Inc., 1331 California Circle, Milpitas, CA 95035.

1.2 SCHEDULES AND ADDENDA: The schedules and addenda listed below are incorporated into this Lease by reference unless lined out. The terms of schedules, exhibits and typewritten addenda, if any, attached or added hereto shall control over any inconsistent provisions in the paragraphs of this Lease.

a. SCHEDULE 1: Description of Leased Premises and/or Floor Plan

b. SCHEDULE 1A: Depiction of ROFO Space

c. SCHEDULE 2: Rules and Regulations

d. SCHEDULE 3: Utility Services

e. SCHEDULE 4: Maintenance Services (Including 4A, Cleaning Schedule)

f. SCHEDULE 5: Parking

g. SCHEDULE 6: Work Letter

h. SCHEDULE 7: Certificate of Acceptance

ARTICLE TWO
PREMISES

2.1 LEASE OF PREMISES: In consideration of the Rent and the provisions of this Lease, Landlord leases to Tenant and Tenant accepts from Landlord the Leased Premises. Tenant's Square Footage is a stipulated amount based on Landlord's method of determining Total Square Footage for rental purposes and may not reflect the actual amount of floor space available for Tenant's use.

2.2 PRIOR OCCUPANCY: Tenant may occupy the Leased Premises prior to the Lease Commencement Date in accordance with the provisions of SCHEDULE 6 in order to perform the Work (as defined in the Work Letter Agreement attached hereto as SCHEDULE 6). If Tenant occupies the Leased Premises prior to the Lease Commencement Date, Tenant shall not be responsible for payment of Base Rent and Tenant's Pro Rata Share of Excess Operating Costs, taxes and insurance (other than the insurance required pursuant to SCHEDULE 6) for the period prior to the Lease Commencement Date, but all other covenants and conditions of this Lease shall be binding on the parties commencing at such prior occupancy.

ARTICLE THREE
PAYMENT OF RENT

3.1 RENT:

a. Tenant shall pay each monthly installment of Base Rent in advance on the first calendar day of each month. During the Base Year, no Excess Operating Costs (as defined in Section 3.3 below) shall be paid by Tenant. For each calendar year following the Base Year, Tenant shall pay each monthly installment of Tenant's Pro Rata Share of Excess Operating Costs in advance together with each monthly installment of Base Rent. Monthly installments for any fractional calendar month, at the beginning or end of the Lease Term, shall be prorated based on the number of days in such month. Base Rent, together with all other amounts payable by Tenant to Landlord under this Lease, including, without limitation, any late charges and interest due Landlord for Rent not paid when due, shall be sometimes referred to collectively as "RENT". Tenant shall pay all Rent, without deduction or set-off, to Landlord or Managing Agent at a place specified by Landlord. Rent not paid when due shall bear interest until paid, at the rate of two percent (2%) per month, or at the maximum rate allowed by law, whichever is less, from the date when due. Tenant shall also pay a processing charge of Fifty Dollars ($50.00) with each late payment of Rent. Landlord agrees to waive the processing and interest charge for late payments of Rent once during any calendar year during the Lease Term, provided any such late Rent payment is paid in full within ten (10) days of the date when due. Nothing contained in this paragraph shall be deemed to prohibit Tenant from being able to credit excess Allowance (as defined in SCHEDULE 6) to Base Rent due hereunder to the extent permitted under Paragraph 3.05 of SCHEDULE 6.

b. Notwithstanding anything to the contrary contained herein, Landlord agrees to abate Base Rent for (i) the first three (3) months and eighteen (18) days of the first year of the Lease Term, and (ii) the first month of the second year of the Lease Term.

3.2 DEPOSIT:

a. Tenant has paid to Landlord the Deposit as security for performance of Tenant's obligations under this Lease. In the event Tenant fully complies with all the terms and conditions of this Lease, the Deposit shall be refunded to Tenant, without interest unless otherwise required by law, upon expiration of this Lease. Landlord may, but is not obligated to, apply a portion of the Deposit to cure any default hereunder and Tenant shall pay on demand the amount necessary to restore the Deposit in full within thirty (30) days after notice by Landlord.

b. Notwithstanding anything to the contrary contained in this Section 3.2, the Deposit shall be in the form of a letter of credit (the "LETTER OF CREDIT") and the following additional provisions shall apply. The Letter of Credit and any substitute Letter of Credit shall be issued in a form and by a bank approved by Landlord (the "BANK"), which approval shall not be unreasonably withheld or delayed. The Bank shall have net worth of not less than Five Hundred Million Dollars ($500,000,000). Tenant shall deposit the Letter of Credit with Landlord upon Tenant's execution of this Lease. Tenant shall maintain the Letter of Credit, or a substitute Letter of Credit, in accordance with the terms hereof, in full force and effect at all times during the Lease Term and for a period of thirty (30) days thereafter (the last day of such thirty (30) day period shall be referred to as the "RETURN DATE"). If the Letter of Credit expires before the Return Date, Tenant shall replace the Letter of Credit deposited with Landlord by providing Landlord with a substitute Letter of Credit at least thirty (30) days prior to the expiration date of the then effective Letter of Credit being held by Landlord in the amount required hereunder. Landlord shall have the right to draw upon the Letter of Credit and apply such Letter of Credit or portion thereof to cure any default of Tenant under this Lease in same manner described in Section 3.2(a). Within thirty (30) days of the Return Date, Landlord shall return the Letter of Credit, or so much thereof as shall not have theretofore been applied in accordance with the terms of this Section 3.2 or drawn upon by Landlord and applied to cure any default of Tenant existing as of such date. Notwithstanding anything to the contrary contained herein, so long as there shall not have been any (i) monetary Event of Default hereunder, or (ii) non-monetary Event of Default which shall not have been cured within applicable cure periods. Tenant shall have the right, commencing on the second (2nd) anniversary of the Lease Commencement Date and on each anniversary thereafter, to reduce the amount of the Letter of Credit by 20% per year (i.e., by $69,432.00 per year); provided, however, that in no event shall the Letter of Credit be reduced to less than 50% of the initial Security Deposit amount. Tenant may exercise the foregoing right to reduce the Letter of Credit by providing Landlord with a substitute Letter of Credit in the form and amount required hereunder.

3.3 OPERATING COSTS: Tenant shall pay Tenant's Pro Rata Share of any Excess Operating Costs as set forth below. As used herein, "EXCESS OPERATING COSTS" shall mean any excess of (i) Landlord's Operating Costs for any calendar year following the Base Year over (ii) the actual Operating Costs of the Base Year.

a. "OPERATING COSTS" shall mean all reasonable and actual expenses relating to the Leased Premises, the Building or the Project, including but not limited to: real estate taxes and assessments; gross rents, sales, use, business, corporation, franchise or other taxes (except income taxes); utilities not separately chargeable to other tenants; insurance premiums and (to the extent used) deductibles; maintenance, repairs and replacements; refurbishing and repainting; cleaning, janitorial and other services; equipment, tools, materials and supplies; air conditioning, heating and elevator service; property management including management fees (provided that such management fees shall not exceed 3% of gross revenues for the Project); security; employees and contractors;

resurfacing and restriping of walks, drives and parking areas; signs, directories and markers; landscaping; and snow and rubbish removal. Operating Costs shall not include (a) expenses for legal services, (b) real estate brokerage and leasing commissions, (c) Landlord's income taxes and income tax accounting, (d) interest and depreciation, (d) general corporate overhead, (e) capital improvements to the Building or Project except for capital improvements installed for the purpose of reducing or controlling expenses, or required by any governmental or other authority having or asserting jurisdiction over the Building or Project provided that the cost of such improvements shall be allocated over the useful life of such improvements, (f) space planning expenses, (g) promotional expenses, (h) rent abatements and lease takeover expenses, (i) costs of electricity outside normal business hours sold to tenants of the Building by Landlord for which Landlord is entitled to reimbursement from such tenants as an additional charge, (j) costs incurred by Landlord in connection with bringing the Building into compliance with all applicable codes and other laws to the extent such requirements were in existence as of the date of this Lease, and (k) salaries and benefits of employees of Landlord and its affiliates above the grade of Building or Project manager. If any expense, though paid in one year, relates to more than one calendar year, at option of Landlord, such expense may be proportionately allocated among such related calendar years.

Cook County real estate taxes are payable in arrears for the preceding calendar year. For purposes of determining taxes for any given calendar year, the amount to be included for such year (a) from special assessments payable in installments, shall be the amount of the installments (and any interest) due and payable during such calendar year, (b) from all other taxes, shall be the amount accrued, assessed or otherwise imposed for such calendar year without regard to when any such taxes are payable, and (c) from any adjustment to any taxes by the taxing authority, when such adjustment has resulted in a corresponding adjustment payment by or to Landlord, shall constitute an adjustment to taxes for the calendar year during which such adjustment is made or received by Landlord, as the case may be. Notwithstanding any other provision contained in this Lease, taxes shall also include all reasonable costs and expenses (including, without limitation, reasonable legal, tax consultants, and appraisal fees and court costs) charged for the protest or the reduction of any of the aforesaid taxes, whether or not such protest or reduction is ultimately successful.

In the event that the Building is not at least 95% leased during any calendar year, Landlord may make appropriate adjustments to those Operating Costs which vary with occupancy of the Building, using reasonable projections, to adjust such costs to an amount that would normally be expected to be incurred if the Building were 95% leased, and such adjusted costs shall be used for purposes of this Section 3.3. Such adjustment shall not apply to any calendar year during the Lease Term if such adjustment was not made during the Base Year, and in no event shall any such adjustment exceed 100% of actual Operating Costs.

b. Tenant shall pay, in equal monthly installments, Tenant's Pro Rata Share of any estimated Excess Operating Costs for each calendar year which falls (in whole or in part) during the Lease Term (prorated for any partial calendar year at the beginning or end of the Lease Term). From time to time (but not more than annually), based on actual and projected Operating Cost data, Landlord may adjust its estimate of Operating Costs upward or downward. Within thirty (30) days after notice to Tenant of a revised estimate of Operating Costs, Tenant shall remit to Landlord a sum equal to any shortage of the amount which should have been paid to date for the then current calendar year based on the revised estimate, and all subsequent monthly estimated payments shall be based on the revised estimate.

c. As soon as possible, after the first day of each year Landlord shall compute the actual Operating Costs for the prior calendar year, and shall give notice thereof to Tenant. Within thirty (30) days after receipt of such notice, Tenant shall pay any deficiency between estimated and actual in Tenant's Pro Rata Share of any Excess Operating Costs for the prior calendar year (prorated for any partial calendar year at the beginning or end of the Lease Term). In the event of overpayment by Tenant, Landlord shall apply the excess to the next payment of Rent when due, until such excess is exhausted or until no further payments of Rent are due, in which case, Landlord shall pay to Tenant the balance of such excess within thirty (30) days thereafter. Tenant or its representatives shall have the right, upon reasonable notice, to examine Landlord's books and records with respect to the Operating Costs at the management office during normal business hours at any time within thirty (30) days following the delivery by Landlord to Tenant of the notice of actual Operating Costs. Tenant shall have an additional ten (10) days to file any written exception to any of the Operating Costs. If such examination discloses that Tenant's Pro Rata Share of Excess Operating Costs was overstated by ten percent (10%) or more, then Landlord shall reimburse Tenant for the reasonable costs of such examination within thirty (30) days after receipt of an invoice for such costs.

d. Landlord maintains its records on an accrual accounting basis rather than a cash accounting basis for Operating Costs purposes, and therefore Operating Costs shall be deemed to have been paid when such expenses have accrued. Any adjustment of an item of Operating Costs included in a particular calendar year which results in a corresponding adjustment payment by or to Landlord shall constitute an adjustment to Operating Costs during the calendar year when such adjustment is made.

3.4 TAXES: In addition to Base Rent and other sums to be paid by Tenant hereunder, Tenant shall reimburse Landlord, as additional Rent, on demand, any taxes payable by Landlord (a) upon, measured by or reasonably attributable to the cost or value of Tenant's equipment, fixtures and other personal property located in the Leased Premises or by the cost or value of any leasehold improvements made to the Leased Premises by Tenant or Landlord, regardless of whether title to such improvements are held by Tenant or Landlord; (b) upon or measured by the monthly rental payable hereunder, including, without limitation, any gross receipts tax or excise tax; (c) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Leased Premises or any portion thereof; (d) upon this Lease or any document to which Tenant is a party creating or transferring an interest or an estate in the Leased Premises. The foregoing taxes shall not be included as part of Operating Costs to the extent that Tenant is directly reimbursing Landlord therefor. Further, in no event shall the foregoing taxes include Landlord's income taxes.

ARTICLE FOUR
IMPROVEMENTS

4.1 CONSTRUCTION: Tenant shall cause certain improvements to be constructed in the Leased Premises as described in the Work Letter attached hereto as SCHEDULE 6 (the "LEASEHOLD IMPROVEMENTS"). The expenses to be incurred as between Landlord and Tenant for construction of the Leasehold Improvements are specified in SCHEDULE 6. Tenant and its contractors may enter the Leased Premises as of the date that Tenant executes this Lease, prior to the Lease Commencement Date, to perform the construction of the Leasehold Improvements. Tenant agrees that any such entry into the Leased Premises shall be deemed to be subject to all of the terms, conditions, covenants and provisions of this Lease (including, without limitation, the provisions of SCHEDULE 6), except as to the covenant to pay Base Rent and Tenant's Pro Rata Share of Operating Costs.

4.2 CONDITION OF LEASED PREMISES: Except as expressly provided in SCHEDULE 6 attached hereto, Tenant acknowledges and agrees that it shall take possession of and accepts the Leased Premises in an "as is" condition, without any warranty as to the condition thereof. Upon the Lease Commencement Date or as soon thereafter as is practicable, Tenant shall execute and deliver to Landlord a letter in the form attached as SCHEDULE 7, acknowledging the Lease Commencement Date. No agreement of Landlord, the Managing Agent or their respective agents or employees to alter, remodel, decorate, clean or improve the Leased Premises (or to provide Tenant with any credit or allowance for the same), and no representation regarding the condition of the Leased Premises, has been made by or on behalf of Landlord or such other parties or relied upon by Tenant, except as stated in the Work Letter attached as SCHEDULE 6.

ARTICLE FIVE
PROJECT SERVICES

5.1 PROJECT SERVICES: Landlord shall furnish the following Project Services:

a. Utility Services: Landlord shall provide the utility services listed on SCHEDULE 3 (the "UTILITY SERVICES"). Electric power for Tenant lighting and operating of office machines is separately metered and billed by Commonwealth Edison.

b. Maintenance Services: Landlord shall provide maintenance of all interior and exterior common areas of the Building including lighting, landscaping, cleaning, painting, maintenance and repair of the exterior of the Building and its structural portions and roof, including but not limited to all of the services listed on SCHEDULE 4 (the "MAINTENANCE SERVICES").

c. Parking: Landlord shall provide the reserved parking spaces as provided in Section 1.1(j). In addition, Tenant shall be entitled to use, without charge and in common with the other tenants of the Project, non-reserved parking spaces at the Project based on 3.1 parking spaces per 1,000 square feet of the Leased Premises as of the Lease Commencement Date (such reserved and non-reserved parking spaces being referred to collectively as the "PARKING"). Tenant acknowledges that the terms and conditions described in SCHEDULE 5 attached hereto shall apply to Tenant's use of the Parking under this Lease.

The Utility Services, the Maintenance Services and Parking described above shall be collectively referred to as "PROJECT SERVICES". The costs of Project Services shall be a part of Operating Costs.

5.2 INTERRUPTION OF SERVICES: Landlord does not warrant that any of the Project Services will be free from interruption. Any Project Service may be suspended by reason of accident or of necessary repairs, alternations or improvements, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Landlord. Subject to possible rent abatement as may be provided pursuant to the conditions described in Section 8.1, any such interruption or discontinuance of such Project Services shall never be deemed a disturbance of Tenant's use and possession of the Leased Premises, or render Landlord liable to Tenant for damages by abatement of rent or otherwise, or relieve Tenant from performance of Tenant's obligations under this Lease; provided, however, that should such interruption or discontinuance of Project Services which materially impairs Tenant's ability to conduct its business continue for four (4) consecutive business days, then beginning on the fifth business day, Landlord shall abate Base Rent and Tenant's Pro Rata Share of Excess Operating Costs, for that portion of the Leased premises rendered untenantable, from the fifth business day after said interruption or discontinuance until the Project Services are restored. In addition, notwithstanding anything to the contrary contained herein. if any such interruption or discontinuance of Project Services shall occur as a result of a condition which affects on the Project (and does not affect office buildings in general in the Chicago-O'Hare area), and if (i) such interruption or discontinuance is within Landlord's reasonable control, (ii) such interruption or discontinuance does not arise as a result of an act or omission of Tenant, (iii) as a result of such interruption or discontinuance, the Leased Premises is rendered untenantable and Tenant in fact so ceases to use the Leased Premises for significant business operations, and (iv) such interruption or discontinuance continues for a period of ninety (90) consecutive days, then Tenant shall have the right to terminate this Lease by prior written notice to Landlord given within thirty (30) days after the expiration of such period (but prior to any restoration of Project Services), which termination shall be effective as of the date of such notice.

ARTICLE SIX
TENANT'S COVENANTS

6.1 USE OF LEASED PREMISES:

a. Permitted Usage: Tenant shall use the Leased Premises for the Permitted Purpose only.

b. Compliance with Laws: Tenant shall, at Tenant's expense, comply with the provisions of all recorded covenants, conditions and restrictions and all building, zoning, fire and other governmental laws, ordinances, regulations or rules now in force or which may hereafter be in force relating to Tenant's use and occupancy of the Leased Premises, the Building, or the Project and all requirements of the carriers of insurance covering the

Project. Nothing contained herein shall require Tenant to be responsible for violations with any of the foregoing to the extent such violations existed as of the date of this Lease.

c. Nuisances or Waste: Tenant shall not do or permit anything to be done in or about the Leased Premises, or bring or keep anything in the Leased Premises that may increase Landlord's fire and extended coverage insurance premium, damage the Building or the Project, constitute waste, constitute an immoral purpose, or be a nuisance, public or private, or menace or other disturbance to tenants of adjoining premises or anyone else.

d. Hazardous Substances: Tenant shall (i) comply with all Environmental Laws; (ii) not cause or permit any Hazardous Materials to be treated, stored, disposed of, generated, or used in the Leased Premises or the Project, provided, however, that Tenant may store, use or dispose of products customarily found in offices and used in connection with the operation and maintenance of property if Tenant complies with all Environmental Laws and does not contaminate the Leased Premises, Project or environment; (iii) promptly after receipt, deliver to Landlord any communication concerning any past or present, actual or potential violation of Environmental Laws, or liability of either party for Environmental Damages. "ENVIRONMENTAL LAWS" mean all applicable present and future statutes, regulations, rules, ordinances, codes, permits or orders of all governmental agencies, departments, commissions, boards, bureaus, or instrumentalities of the United States, states and their political subdivisions and all applicable judicial, administrative and regulatory decrees and judgments relating to the protection of public health or safety or of the environment. "HAZARDOUS MATERIALS" include substances (1) which require remediation under any Environmental Laws; or (2) which are or become defined as a "hazardous waste", "hazardous substance", pollutant or contaminant under any Environmental Laws; or (3) which are toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic or mutagenic; or (4) which contain petroleum hydrocarbons, polychlorinated biphenyls, asbestos, asbestos containing materials or urea formaldehyde. "ENVIRONMENTAL DAMAGES" means all claims, judgments, losses, penalties, fines, liabilities, encumbrances, liens, costs and reasonable expenses of investigation, defense or good faith settlement resulting from violations of Environmental Laws, and including, without limitation: (A) damages for personal injury and injury to property or natural resources; (B) reasonable fees and disbursement of attorneys, consultants, contractors, experts and laboratories; and (C) costs of any cleanup, remediation, removal, response, abatement, containment, closure, restoration or monitoring work required by any Environmental Law and other costs reasonably necessary to restore full economic use of the Leased Premises or Project.

e. Alterations and Improvements: Tenant shall make no alterations or improvements to the Leased Premises without the prior written approval of Landlord (which approval shall not be unreasonably withheld or delayed) and Landlord's mortgagee, if any. Notwithstanding the foregoing, Tenant shall have the right, without the necessity of obtaining Landlord's consent, to make non-structural, decorative alterations or improvements to the Leased Premises, the cost of which shall not exceed $25,000.00 in the aggregate and the performance of which does not require the issuance of a building permit under applicable building codes and ordinances. Any such alterations or improvements by Tenant shall be done in a good and workmanlike manner, at Tenant's expense, by a licensed contractor approved by Landlord and in conformity with plans and specifications approved by Landlord. Landlord shall have the right to supervise any alterations or improvements for which Landlord's consent is required, in which event Tenant shall pay to Landlord on demand a fee for such supervision in an amount equal to five percent (5%) of the cost of such alterations or improvements (exclusive of "soft costs"). If requested by Landlord, Tenant will post a bond or other security reasonably satisfactory to Landlord to protect Landlord against liens arising from work performed for Tenant. Landlord's approval of the plans and specifications for Tenant's alterations or improvements shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities.

f. Liens: Tenant shall keep the Leased Premises, the Building and the Project free from liens arising out of any work performed, materials furnished or obligations incurred by or for Tenant. If, at any time, a lien or encumbrance is filed against the Leased Premises, the Building or the Project as a result of Tenant's work, materials or obligations, Tenant shall promptly discharge such lien or encumbrance. If such lien or encumbrance has not been removed within thirty (30) days from the date it is filed, Tenant agrees to deposit with Landlord cash or a bond, which shall be in a form and be issued by a company acceptable to Landlord in its sole discretion, in an amount equal to 150% of the amount of the lien, to be held by Landlord as security for the lien being discharged.

g. Rules and Regulations: Tenant shall observe, perform and abide by all the rules and regulations promulgated by Landlord from time to time. SCHEDULE 2 sets forth Landlord's rules and regulations in effect on the date hereof.

h. Signage: Tenant shall obtain the prior approval of the Landlord (which approval shall not be unreasonably withheld or delayed) before placing any sign or symbol in doors or windows or elsewhere in or about the Leased Premises, or upon any other part of the Building, or Project including building directories. Any signs or symbols which have been placed without Landlord's approval may be removed by Landlord. Upon expiration or termination of this Lease, all signs installed by Tenant shall be removed and any damage resulting therefrom shall be promptly repaired, or such removal and repair may be done by Landlord and the cost charged to Tenant as Rent.

6.2 INSURANCE: Tenant shall, at its own expense, procure and maintain during the Lease Term: (i) all risk insurance, including coverage for loss or damage resulting from water (exclusive of flood insurance) or theft, on merchandise, trade fixtures, and personal property owned by the Tenant, and property of others in the Tenant's possession, on a full replacement cost and agreed value basis, and (ii) worker's compensation insurance in at least the statutory amounts, and (iii) commercial general liability insurance with respect to the Leased Premises and Tenant's activities in the Leased Premises and in the Building and the Project, providing bodily injury, personal injury, contractual liability, and property damage coverage with a maximum $5,000 deductible, or such other amount approved by the Landlord, in writing, and minimum coverage limits as follows:

a. $2,000,000 with respect to bodily injury or death, personal injury, contractual liability and property damage arising out of any one occurrence;

Nothing in this Section 6.2 shall prevent Tenant from obtaining insurance of the kind and in the amounts provided for under this paragraph under a blanket insurance policy covering other properties as well as the Leased Premises, provided, however, that any such policy of blanket insurance (i) shall specify the amounts of the total insurance allocated to the Leased Premises, which amounts shall not be less than the amounts required by subparagraph a. above, and (ii) such amounts so specified shall be sufficient to prevent any one of the assureds from becoming a coinsurer within the terms of the applicable policy, and (iii) shall, as to the Leased Premises, otherwise comply as to endorsements and coverage with the provisions of this paragraph. Tenant's insurance shall be with a company which has a rating equal to or greater than Best's Insurance Reports classification of A, Class X or its equivalent, as such classification is determined as of the Lease Commencement Date. Landlord and Landlord's mortgagee, if any, shall be named as "additional insureds" under Tenant's general liability insurance, and such Tenant's insurance shall be primary and non-contributing with Landlord's insurance. Tenant's insurance policies shall contain endorsements requiring 30 days notice to Landlord and Landlord's mortgagee, if any, prior to any cancellation, lapse or nonrenewal or any reduction in amount of coverage.

Tenant shall deliver to Landlord as a condition precedent to its taking occupancy of the Leased Premises, certificates of Insurance for all required insurance obligations hereunder including evidence of contractual liability and additional insured status on a primary and non-contributing basis with respect to liability coverage, or certified copies of any of the policies evidencing such insurance obligations.

Landlord shall, at its own expense, procure and maintain during the Lease Term fire and extended coverage insurance for 100% replacement value of the Building, including all improvements and fixtures thereto.

6.3 REPAIRS: Tenant, at its sole expense, agrees to maintain the interior of the Leased Premises in a neat, clean and sanitary condition. If Tenant fails to maintain or keep the Leased Premises in good repair and such failure continues for five (5) days after written notice from Landlord or if such failure results in a nuisance or health or safety risk, Landlord may perform any such required maintenance and repairs and the cost thereof shall be payable by Tenant as Rent within ten (10) days of receipt of an invoice from Landlord. Tenant shall also pay to Landlord the costs of any repair to the Building or Project necessitated by any act or neglect of Tenant.

6.4 ASSIGNMENT AND SUBLETTING: Tenant shall not assign, mortgage, pledge, or encumber this Lease, or permit all or any part of the Leased Premises to be subleased without the prior written consent of Landlord and Landlord's mortgagee, if any, which consent shall not be unreasonably withheld or delayed. Any transfer of this Lease by merger, consolidation, reorganization or liquidation of Tenant, or by operation of law, or change in ownership of or power to vote the majority of the outstanding voting stock of a corporate Tenant, or by change in ownership of a controlling partnership interest in a partnership Tenant, shall constitute an assignment for the purposes of this paragraph. Notwithstanding the foregoing, Tenant shall have the right to assign or sublease part or all of the Lease Premises to any of its subsidiaries, affiliates or any parent corporation of Tenant with prior written notice to Landlord provided that (i) Tenant continues to be primarily liable on its obligations as set forth herein; (ii) any such assignee or sublessee shall assume and be bound by all covenants and obligations of Tenant herewith; (iii) the proposed assignee or sublessee is, in Landlord's good faith judgment, compatible with other tenants in the Building and seeks to use the Leased Premises only for the Permitted Purpose and for a use that is not prohibited under the terms of a lease with another tenant in the Building; and (iv) such use would not result in a material change in the number of personnel working in, or members of the general public visiting, the Leased Premises.

In addition to other reasonable bases, Tenant hereby agrees that Landlord shall be deemed to be reasonable in withholding its consent, if: (a) such proposed assignment or sublease is to any party who is then a tenant of the Building or the Project if Landlord has comparable area; or (b) Tenant is in default under any of the terms, covenants, conditions, provisions and agreements of this Lease at the time of request for consent or on the effective date of such subletting or assignment; or (c) the proposed subtenant or assignee is, in Landlord's good faith judgment, incompatible with other tenants in the Building, or seeks to use any portion of the Leased Premises for a use not consistent with other uses in the Building, or is financially incapable of assuming the obligations of this Lease; or (d) the proposed assignee of sublessee or its business is subject to compliance with additional requirements of the law (including related regulations) commonly known as the "Americans with Disabilities Act" beyond those requirements which are applicable to the Tenant, unless the proposed assignee of sublessee shall: (i) first deliver plans and specifications for complying with such additional requirements and obtain Landlord's consent thereto, and (ii) comply with all Landlord's conditions for or contained in such consent, including without limitation, requirements for security to assure the lien-free completion of such improvements. Tenant shall submit to Landlord the name of a proposed assignee or subtenant, the terms of the proposed assignment or subletting, a copy of the proposed assignment document or sublease, the nature of the proposed subtenant's business and such information as to the assignee's or subtenant's financial responsibility and general reputation as Landlord may reasonably require.

No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its primary obligation to pay the Rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person or entity shall not be deemed to be waiver by Landlord of any provision of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or transfer.

In lieu of giving any consent to a sublet or an assignment of all the Leased Premises, Landlord may, at Landlord's option, elect to terminate this Lease. In the case of a proposed subletting of a portion of the Leased Premises, Landlord may, at Landlord's option, elect to terminate the Lease with respect to that portion of the Leased Premises being proposed for subletting. The effective date of any such termination shall be thirty (30) days after the proposed effective date of any proposed assignment or subletting.

Fifty percent (50%) of any proceeds in excess of Base Rent and Tenant's Pro Rata Share of Excess Operating Costs which is received by Tenant pursuant to an assignment or subletting consented to by Landlord, less reasonable brokerage commissions actually paid by Tenant, and less other costs incurred by Tenant in connection with making the space available for lease, shall be remitted to Landlord as extra Rent within thirty (30) days of receipt by Tenant. For purposes of this paragraph, all money or value in whatever form received by Tenant from or on account of any party as consideration for an assignment or subletting (except for the sale of Tenant's personal property and inventory at its then reasonable market value) shall be deemed to be proceeds received by Tenant pursuant to an assignment or subletting.

6.5 ESTOPPEL CERTIFICATE: From time to time and within ten (10) days after request by Landlord, Tenant shall execute and deliver a certificate to any proposed lender or purchaser, or to Landlord, together with a true and correct copy of this Lease, certifying with any appropriate exceptions, (i) that this Lease is in full force and effect without modification or amendment, (ii) the amount of Rent payable by Tenant and the amount, if any, of Prepaid Rent and Deposit paid by Tenant to Landlord, (iii) the nature and kind of concessions, rental or otherwise, if any, which Tenant has received or is entitled to receive, (iv) that Tenant has not assigned its rights under this Lease or sublet any portion of the Leased Premises, (v) that Landlord has performed all of its obligations due to be performed under this Lease and that there are no defenses, counterclaims, deductions or offsets outstanding or other excuses for Tenant's performance under this Lease, (vi) that such proposed lender or purchaser may rely on the information contained in the certificate, and (vii) any other fact reasonably requested by Landlord or such proposed lender or purchaser.

ARTICLE SEVEN
LANDLORD'S RESERVED RIGHTS

7.1 INTENTIONALLY OMITTED

7.2 ADDITIONAL RIGHTS RESERVED TO LANDLORD: Without notice and without liability to Tenant or without effecting an eviction or disturbance of Tenant's use or possession, Landlord shall have the right to (i) grant utility easements or other easements in, or replat, subdivide or make other changes in the legal status of the land underlying the Building or the Project as Landlord shall deem appropriate in its sole discretion, provided such changes do not substantially interfere with Tenant's use of the Leased Premises for the Permitted Purpose; (ii) enter the Leased Premises at reasonable times upon reasonable prior notice (or, in the event of an emergency, at any time and without notice) to inspect, alter or repair the Leased Premises or the Building and to perform any acts related to the safety, protection, reletting, sale or improvement of the Leased Premises or the Building; (iii) change the name or street address of the Building or the Project; (iv) install and maintain signs on and in the Building and the Project; and (v) make such rules and regulations as, in the sole judgment of Landlord, may be needed from time to time for the safety of the tenants, the care and cleanliness of the Leased Premises, the Building and the Project and the preservation of good order therein.

ARTICLE EIGHT
CASUALTY AND UNTENANTABILITY

8.1 CASUALTY AND UNTENANTABILITY: If the Building is made substantially untenantable or it Tenant's use and occupancy of the Leased Premises are substantially interfered with due to damage to the common areas of the Building or if the Leased Premises are made wholly or partially untenantable by fire or other casualty, Landlord may, by notice to Tenant within forty-five (45) days after the damage, terminate this Lease. Such termination shall become effective as of the date of such casualty.

If the Leased Premises are made partially or wholly untenantable by fire or other casualty and this Lease is not terminated as provided above, Landlord shall restore the Leased Premises to the condition they were in on the Lease Commencement Date, not including any personal property of Tenant or alterations performed by Tenant (other than the initial Leasehold Improvements).

If the Landlord does not terminate this Lease as provided above, and Landlord fails within one hundred twenty (120) days from the date of such casualty to restore the damaged common areas thereby eliminating substantial interference with Tenant's use and occupancy of the Leased Premises, or fails to restore the Leased Premises to the condition they were in on the Lease Commencement Date, not including any personal property or alterations performed by Tenant (other than the initial Leasehold Improvements), Tenant may terminate this Lease as of the end of such one hundred twenty (120) day period.

Notwithstanding anything to the contrary contained herein, the parties hereto acknowledge and agree that, to the extent any Superior Instrument (as defined in Section 13.4 below) conflicts with the terms of this Article 8, the terms of such Superior Instrument shall control with respect to the disbursement and application of insurance proceeds, and that Landlord will comply with all requirements of the holder of any such Superior Instrument to deposit such insurance proceeds in escrow pending the application and disbursement of such insurance proceeds.

In the event of termination of this Lease pursuant to this section, Rent shall be prorated on a per diem basis and paid to the date of the casualty, unless the Leased Premises shall be tenantable, in which case Rent shall be payable to the date of the lease termination. If the Leased Premises are untenantable and this Lease is not terminated, Rent shall abate on a per diem basis from the date of the casualty until the Leased Premises are ready for occupancy by Tenant. If part of the Leased Premises are untenantable, Rent shall be prorated on a per diem basis and apportioned in accordance with the part of the Leased Premises which is usable by Tenant until the damaged part is ready for Tenant's occupancy. Notwithstanding the foregoing, if any damage was proximately caused by an act or omission of Tenant, its employees, agents, contractors, licensees or invitees, then, in such event, Tenant agrees that Rent shall not abate or be diminished during the term of this Lease.

ARTICLE NINE
CONDEMNATION

9.1 CONDEMNATION: If all or any part of the Leased Premises shall be taken under power of eminent domain or sold under imminent threat to any public authority or private entity having such power, this Lease shall terminate as to the part of the Leased Premises so taken or sold, effective as of the date possession is required to be delivered to such authority. In such event, Base Rent shall abate in the ratio that the portion of Tenant's Square Footage taken or sold bears to Tenant's Square Footage. If a partial taking or sale of the Leased Premises, the Building or the Project (i) substantially reduces Tenant's Square Footage resulting in a substantial inability of Tenant to use the Leased Premises for the Permitted Purpose, or (ii) renders the Building or the Project not commercially viable to Landlord in Landlord's sole opinion, either Tenant in the case of (i), or Landlord in the case of (ii), may terminate this Lease by notice to the other party within thirty (30) days after the terminating party receives written notice of the portion to be taken or sold. Such termination shall be effective one hundred eighty (180) days after notice thereof, or when the portion is taken or sold, whichever is sooner. All condemnation awards and similar payments shall be paid and belong to Landlord, except any amounts awarded or paid specifically to Tenant for removal and reinstallation of Tenant's trade fixtures, personal property or Tenant's moving costs.

ARTICLE TEN
WAIVER AND INDEMNITY

10.1 LIABILITY WAIVER: Except for those claims arising from the Landlord's negligence or willful misconduct, Tenant, to the extent permitted by law, hereby releases Landlord and waives any right of recovery or subrogation for injury to persons or damage to property sustained by any third person (including employees), firm, or corporation against which Tenant is provided protection by the insurance coverage afforded Tenant through any Liability or Workers' Compensation Insurance Policies. Tenant agrees that such policies of insurance shall contain appropriate waiver of subrogation and right of recovery clauses (for property perils and damage only).

10.2 INDEMNIFICATION:

a. Tenant agrees that Tenant will indemnify and hold and save Landlord whole and harmless of, from and against all suits, losses, costs, liabilities, claims demands, actions, expenses and judgments of every kind and character suffered by, recovered from or asserted against Landlord on account of injury or damage to person or property to the extent that any such damage or injury may be incident to, arise out of, or be caused, either proximately or remotely, by an act, omission, negligence, or misconduct on the part of the Tenant or any of its agents, servants, employees, contractors, patrons, guests, licensees, or invitees or of any other reason entering upon the Leased Premises under or with the express or implied invitation or permission of Tenant or when any such injury or damage is the result, proximate or remote, of the violation by Tenant or any of its agents, servants, employees, contractors, patrons, guests, licensees or invitees of any law, ordinance, or governmental order, or when any such injury or damage may in any other way arise from or out of the occupancy or use by Tenant, its agents, servants, employees, contractors, patrons, guests, licensees or invitees of the Leased Premises, except to the extent caused by Landlord's negligence or willful misconduct or by any of Landlord's agents, servants, employees, contractors, patrons, guests, licensees or invitees. Tenant agrees to indemnify, defend, reimburse and hold Landlord harmless against any Environmental Damages incurred by Landlord arising from Tenant's breach of Section 6.1(d) of the Lease.

b. Landlord agrees to hold Tenant harmless and indemnified against claims and liability for injuries to all persons and for damage to or loss of property occurring in or about the Leased Premises or the Building due to Landlord's breach of this Lease or due to the negligence of Landlord, its contractors, agents, employees, licensee or invitees.

10.3 WAIVER OF SUBROGATION: In the event of fire or other loss to the Leased Premises or the Building, Tenant and Landlord release each other and waive any right of subrogation or recovery against each other for loss or damage to the waiving party or its respective property, which occurs in or about the Leased Premises or Building, whether due to the negligence of either party, their agents, employees, officers, contractors licensees, invitees or otherwise, to the extent that such loss or damage is insurable against under the terms of the insurance contracts required hereunder. Tenant and Landlord agree that all policies of insurance obtained by either of them in connection with the Leased Premises shall contain appropriate waiver of subrogation clauses.

10.4 LIMITATION OF LANDLORD'S LIABILITY: The obligations of Landlord under this Lease do not constitute personal obligations of the individual partners, shareholders, directors, officers, employees or agents of Landlord, and Tenant shall look solely to Landlord's interest in the Building and land and to no other assets of Landlord for satisfaction of any liability in respect of this Lease. Tenant will not seek recourse against the individual partners, shareholders, directors, officers, employees or agents of Landlord or any of their personal assets for such satisfaction. Notwithstanding any other provisions contained herein, Landlord shall not be liable to Tenant, its contractors, agents or employees for any consequential damages or damages for loss of profits.

ARTICLE ELEVEN
TENANT'S DEFAULT AND LANDLORD'S REMEDIES

11.1 TENANT'S DEFAULT: It shall be an "EVENT OF DEFAULT" if Tenant shall (i) fail to pay any monthly installment of Base Rent or Tenant's Pro Rata Share of Excess Operating Costs, or any other sum payable hereunder within ten (10) days after such payment is due and payable; (ii) violate or fail to perform any conditions, covenants, or agreements herein made by Tenant respecting Tenant's insurance requirements as specified in Section 6.2, and such violation or failure shall continue for five (5) business days after written notice thereof to Tenant by Landlord; (iii) violate or fail to perform any of the other conditions, covenants or agreements herein made by Tenant, and such violation or failure shall continue for fifteen (15) days after written notice thereof to Tenant by Landlord; provided, however, if such default is of a nature that it cannot reasonably be cured within fifteen (15) days, it shall not be an Event of Default if Tenant commences to cure within such fifteen (15) day period and diligently prosecutes such cure to completion within the time reasonably required for such cure, not to exceed sixty (60) days; (iv) make a general assignment for the benefit of its creditors or file a petition for bankruptcy or other reorganization, liquidation, dissolution or similar relief; (v) have a proceeding filed against Tenant seeking any relief mentioned in (iv) above; (vi) have a trustee, receiver or liquidator appointed for Tenant or a substantial part of its property; (vii) abandon or vacate the Leased Premises and any portion of Rent is delinquent; (viii) default under any other lease, if any, within the Building or the Project; or (ix) if Tenant is a partnership, if any partner of the partnership is involved in any of the acts or events described in subparagraphs (i) through (viii) above.

11.2 REMEDIES OF LANDLORD: If an Event of Default occurs, Landlord, may, at its option, five (5) days after written notice to Tenant, reenter the Leased Premises, remove all persons therefrom, take possession of the Leased Premises, and remove all of Tenant's personal property at Tenant's risk and expense and, either (i) terminate this Lease and Tenant's right of possession of the Leased Premises or (ii) maintain this Lease in full force and effect and endeavor to relet all or part of the Leased Premises. In the event Landlord elects to maintain this Lease, Landlord shall have the right to relet the Leased Premises for such rent and upon such terms as Landlord deems reasonable and necessary, and Tenant shall be liable for all damages sustained by Landlord, including but not limited to, any deficiency in Rent for the period of time which would have remained in the Lease Term in the absence of any termination, leasing fees, attorneys' fees, other marketing and collection costs, the cash value of any concessions granted to Tenant and all expenses of placing the Leased Premises in first class rentable condition. Landlord retains the right to terminate this Lease, at any time, notwithstanding that Landlord fails to terminate this Lease initially. If Landlord is unable after diligent efforts to relet the Leased Premises within one hundred twenty (120) days after termination of this Lease, Landlord may elect at any time thereafter to have Tenant immediately pay, as liquidated damages and not as a penalty, all Rent then due and the present value (discounted at 10%) of all Rent which would have become due (based on Base Rent and Tenant's Pro Rata Share of Excess Operating Costs payable at the time of such election and the cash value of any concessions granted to Tenant) for the period of time which would have remained in the Lease Term in the absence of any termination over the then reasonable rental value of the Leased Premises for the remaining Lease Term. Notwithstanding anything to the contrary contained herein, Landlord agrees to use commercially reasonable efforts to mitigate its damages following an Event of Default by Tenant.

The remedies granted to Landlord herein shall be cumulative and shall not exclude any other remedy allowed by law, and shall not prevent the enforcement of any claim Landlord may have against Tenant for anticipatory breach of the unexpired term of this Lease, including without limitation, a claim for attorney's fees incurred by Landlord.

ARTICLE TWELVE
TERMINATION

12.1 SURRENDER OF LEASED PREMISES: On expiration of this Lease, if no Event of Default exists, Tenant shall surrender the Leased Premises in the same condition as when the Lease Term commenced, ordinary wear and tear or damage from casualty excepted. Except for furnishings, trade fixtures and other personal property installed at Tenant's expense, all alterations, additions or improvements, whether temporary or permanent in character, made in or upon the Leased Premises, either by Landlord or Tenant, shall be Landlord's property and at the expiration or earlier termination of the Lease Term shall remain on the Leased Premises without compensation to Tenant, except if requested by Landlord, Tenant, at its expense and without delay, shall remove any alterations, additions or improvements made to the Leased Premises by Tenant designated by Landlord to be removed (such designation by Landlord shall occur at the time Landlord consents to such improvements), and repair any damage to the Leased

Premises or the Building caused by such removal. If Tenant fails to repair the Leased Premises, Landlord may complete such repairs and Tenant shall reimburse Landlord for such repair and restoration. Landlord shall have the option to require Tenant to remove all its property. If Tenant fails to remove such property as required under this Lease, Landlord may dispose of such property in its sole discretion without any liability to Tenant, and further may charge the cost of any such disposition to Tenant.

12.2 HOLD OVER TENANCY: If Tenant shall hold over after the Lease Expiration Date, Tenant may be deemed, and Landlord's option, to occupy the Leased Premises as a tenant from month to month, which tenancy may be terminated by one month's written notice. During such tenancy, Tenant agrees to pay to Landlord, monthly in advance, an amount equal to 150%, for the first thirty (30) days of such tenancy, and 200% thereafter; of all Rent which would become due (based on Base Rent and Tenant's Pro Rata Share of Excess Operating Costs payable for the last month of the Lease Term, together with all other amounts payable by Tenant to Landlord under this Lease), and to be bound by all of the terms, covenants and conditions herein specified. If Landlord relets the Leased Premises or any portion thereof to a new tenant and the term of such new lease commences during the period for which Tenant holds over, Landlord shall also be entitled to recover from Tenant all costs and expenses, attorneys fees, damages or loss of profits incurred by Landlord as a result of Tenant's failure to deliver possession of the Leased Premises to Landlord when required under this Lease.

ARTICLE THIRTEEN
MISCELLANEOUS

13.1 QUIET ENJOYMENT: If and so long as Tenant pays all Rent and keeps and performs each and every term, covenant and condition herein contained on the part of Tenant to be kept and performed, Tenant shall quietly enjoy the Leased Premises without hindrance by Landlord.

13.2 ACCORD AND SATISFACTION: No receipt and retention by Landlord of any payment tendered by Tenant in connection with this Lease shall constitute an accord and satisfaction, or a compromise or other settlement, notwithstanding any accompanying statement, instruction or other assertion on the contrary unless Landlord expressly agrees to an accord and satisfaction, or a compromise or other settlement, in a separate writing duly executed by Landlord. Landlord will be entitled to treat any such payments as being received on account of any item or items of Rent, interest, expense or damage due in connection herewith, in such amounts and in such order as Landlord may determine at its sole option.

13.3 SEVERABILITY: The parties intend this Lease to be legally valid and enforceable in accordance with all of its terms to the fullest extent permitted by law. If any term hereof shall be invalid or unenforceable, the parties agree that such term shall be stricken from this Lease to the extent unenforceable, the same as if it never had been contained herein. Such invalidity or unenforceability shall not extend to any other term of this Lease, and the remaining terms hereof shall continue in effect to the fullest extent permitted by law, the same as if such stricken term never had been contained herein.

13.4 SUBORDINATION AND ATTORNMENT: Tenant acknowledges that this Lease is subject and subordinate to all leases in which Landlord is lessee and to any mortgage or deed of trust now in force against the Building and to all advances made or hereafter to be made thereunder, or any amendments or modifications thereof, and shall be subordinate to any future leases in which Landlord is lessee and to any future mortgage or deed of trust hereafter in force against the Building and to all advances made or hereafter to be made thereunder (all such existing and future leases, mortgages and deeds of trust referred to collectively as "SUPERIOR INSTRUMENTS"). Tenant also agrees that if the holder of any Superior Instrument elects to have this lease superior to its Superior Instrument and gives notice of its election to Tenant, then this lease shall be superior to the lien of any such lease, mortgage or deed of trust and all renewals, replacements and extensions thereof, whether this Lease is dated before or after such lease, mortgage or deed of trust. If requested in writing by Landlord or any first mortgagee or ground lessor of Landlord, Tenant agrees to execute a subordination agreement required to further affect the provisions of this section. Notwithstanding anything to the contrary contained herein, Landlord agrees to use commercially reasonable efforts to secure a non-disturbance agreement from the holder of any Superior Instrument entered into after the date of this Lease.

In the event of any transfer in lieu of foreclosure or termination of a lease in which Landlord is lessee or the foreclosure of any Superior Instrument, or sale of the Property pursuant to any Superior Instrument, Tenant shall attorn to such purchaser, transferee or lessor and recognize such party as landlord under this Lease, provided such party acquires and accepts the Leased Premises subject to this lease. The agreement of Tenant to attorn contained in the immediately preceding sentence shall survive any such foreclosure sale or transfer.

13.5 ATTORNEY'S FEES: If the services of an attorney are required by any party to secure the performance under this Lease or otherwise upon the breach or default of the other party to the Lease, or if any judicial remedy is necessary to enforce or interpret any provision of the Lease, the prevailing party shall be entitled to reasonable attorney's fees, costs and other expenses, in addition to any other relief to which such prevailing party may be entitled.

13.6 APPLICABLE LAW: This Lease shall be construed according to the laws of the state in which the Leased Premises are located.

13.7 BINDING EFFECT, GENDER: This Lease shall be binding upon and inure to the benefit of the parties and their successors and assigns. It is understood and agreed that the terms "Landlord" and "Tenant" and verbs and pronouns in the singular number are uniformly used throughout this Lease regardless of gender, number or fact of incorporation of the parties hereto.

13.8 TIME: Time is of the essence of this Lease.

13.9 ENTIRE AGREEMENT: This Lease and the schedules and addenda attached set forth all the covenants, promises, agreements, representations, conditions, statements and understandings between Landlord and Tenant concerning the Leased Premises and the Building and the Project, and there are no representations, either oral or written between them other than those in this Lease. This Lease shall not be amended or modified except in writing signed by both parties. Failure to exercise any right in one or more instances shall not be construed as a waiver of the right to strict performance or as an amendment to this Lease.

13.10 NOTICES: Any notice or demand provided for or given pursuant to this Lease shall be in writing and served on the parties at the addresses listed in Section 1.1(n) and paragraph 1.1(o). Any notice shall be either (i) personally delivered to the addressee set forth above, in which case it shall be deemed delivered on the date of delivery to said addressee; or (ii) sent by registered or certified mail/return receipt requested, in which case it shall be deemed delivered 3 business days after being deposited in the U.S. Mail; (iii) sent by a nationally recognized overnight courier, in which case it shall be deemed delivered 1 business day after deposit with such courier; or (iv) sent by telecommunication ("FAX") during normal business hours in which case it shall be deemed delivered on the day sent, provided an original is received by the addressee after being sent by a nationally recognized overnight courier within 1 business day of the Fax. The addresses and Fax numbers listed in Sections 1.1(n) and 1.1(o) may be changed by written notice to the other parties, provided, however, that no notice of a change of address or Fax number shall be effective until the date of delivery of such notice. Copies of notices are for informational purposes only and a failure to give or receive copies of any notice shall not be deemed a failure to give notice.

13.11 HEADINGS: The headings on this Lease are included for convenience only and shall not be taken into consideration in any construction or interpretation of this Lease or any of its provisions.

13.12 BROKERAGE COMMISSIONS: Tenant and Landlord each represents to the other that no broker or agent was instrumental in procuring or negotiating or consummating this Lease other than Broker of Record whose compensation shall be paid by Landlord, and Cooperating Broker, if any, whose compensation shall be paid by Broker of Record, and Tenant and Landlord each agree to defend, indemnify and hold harmless the other party against any loss, cost, expense or liability for any compensation, commission, fee or charge, including reasonable attorney's fees, resulting from any claim of any other broker, agent or finder claiming under or through the indemnifying party in connection with this Lease or its negotiation.

13.13 SALE BY LANDLORD: In the event of sale or conveyance or transfer by Landlord of its interest in the Project or in any Building or Buildings in which the Leased Premises are located or in this Lease, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, express or implied, herein contained in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease provided that the transferee assumes Landlord's obligations hereunder. This Lease shall not be affected by any such sale, conveyance or transfer.

13.14 RIGHT OF FIRST OFFER: If, at any time during the Term, Landlord shall desire to lease any space comprising a part of Suite 450 on the fourth floor of the Building, as depicted on SCHEDULE 1A (the "ROFO SPACE") to a third party, other than the existing tenant in any such space, and provided that there shall be no uncured Event of Default by Tenant under this Lease, Landlord shall first give Tenant written notice ("LANDLORD'S NOTICE") of the Business Terms (as hereinafter defined) upon which Landlord is planning to market the ROFO Space. As used herein, "BUSINESS TERMS" means the lease term (the "ROFO TERM"), the base rental rate, operating cost stop or Base Year, tenant improvement allowance, number of rentable square feet, and the configuration of the ROFO Space. Within five (5) business days of Landlord's Notice, Tenant shall have the right, by written notice to Landlord ("TENANT'S NOTICE") to either (i) waive its rights to the ROFO Space for purposes of the subject Landlord's Notice, or (ii) accept the ROFO Space on the Business Terms set forth in Landlord's Notice. If Tenant fails to deliver Tenant's Notice within such five (5) business day period, Tenant shall be deemed to have waived its rights to the ROFO Space. If Tenant timely elects to accept the ROFO Space, Landlord and Tenant shall, within thirty 30) days from the date of Tenant's Notice, enter into a lease amendment with respect to the ROFO Space reflecting the Business Terms provided in Landlord's Notice. In the event Tenant elects to waive its rights (or is deemed to have waived its rights) as to any ROFO Space, Landlord shall have the absolute right to lease the ROFO Space to any other person or entity on any terms and conditions, and Tenant shall have no further rights with respect to the ROFO Space, unless (i) the ROFO Space has not been leased within 180 days following Landlord's Notice as to such ROFO Space, or (ii) Landlord proposed to lease the ROFO Space to a third party at a net effective rental rate that is less than 95% of the rate set forth in Landlord's Notice. Tenant's rights under this Section 13.14 shall be personal to Tenant and shall not be assignable or assumable.

13.15 STORAGE SPACE: During the Lease Term, Tenant shall have the right to lease storage space in the lower level of the Project, subject to availability, at the gross rental rate of $12.00 per square foot.

SUBMISSION OF THIS INSTRUMENT FOR EXAMINATION OR SIGNATURE BY TENANT DOES NOT CONSTITUTE A RESERVATION OF OR OPTION FOR LEASE, AND IT IS NOT EFFECTIVE AS A LEASE OR OTHERWISE UNTIL EXECUTION AND DELIVERY BY BOTH LANDLORD AND TENANT.

[Signature Page Follows]

This Lease is executed as of the date first written above.

TENANT	LANDLORD:
PCTEL, INC.	ASP WHEELIE, L.L.C.
By /s/ John W. Schoen	By /s/ Scott Fitzgerald
Its COO/CFO/Secretary	Its Vice President

By ____________________________

Its ___________________________

Authorized Signatories

Where Tenant is a corporation, this Lease shall be signed by a President or Vice President and Secretary or Assistant Secretary of Tenant. Any other signatories shall require a certified corporate resolution.

SCHEDULE 1
DEPICTION/FLOOR PLAN OF LEASED PREMISES

SEE ATTACHED.

1 CEO OFFICE (14' x 19'--11''+/-)
10 PRIVATE OFFICES (9' x 14'+/-)
18 8' x 10' WORKSTATIONS
10 10' x 10' WORKSTATIONS
1 LAB (29.5' x 30.5'+/-)
2 LARGE CONFERENCE ROOMS

[GRAPHIC]

SCHEDULE 2
RULES AND REGULATIONS

1. The sidewalks, entrances, halls, corridors, elevators and stairways of the Building and Project shall not be obstructed or used as a waking or lounging place by tenants, and their agents, servants, employees, invitees, licensees and visitors. All entrance doors leading from any Leased Premises to the hallways are to be kept closed at all times.

2. Landlord reserves the right to refuse admittance to the Building after reasonable business hours, as established from time to time, to any person not producing both a key to the Leased Premises and/or a pass issued by Landlord. In case of invasion, riot, public excitement or other commotion, Landlord also reserves the right to prevent access to the Building during continuance of same. Landlord shall in no case be liable for damages for the admission or exclusion of any person to or from the Building.

3. Landlord will furnish each tenant with two keys to each door lock on the Leased Premises, and Landlord may make a reasonable charge for any additional keys and access cards requested by any tenant. No tenant shall have any keys made for the Leased Premises; nor shall any tenant alter any lock, or install new or additional locks or bolts on any door without the prior written approval of Landlord. If Landlord approves any lock alteration or addition, the tenant making such alteration shall supply Landlord with a key for any such lock or bolt. Each tenant, upon the expiration or termination of its tenancy, shall deliver to Landlord all keys and access cards in any such tenant's possession for all locks and bolts in the Building.

4. No tenant shall cause any unnecessary labor by reason of such tenant's carelessness or indifference in the preservation of good order and cleanliness of the Leased Premises. Tenants will see that (i) the windows are closed, (ii) the doors securely locked, and (iii) all water faucets and other utilities are shut off (so as to prevent waste or damage) each day before leaving the Leased Premises. In the event tenant must dispose of crates, boxes, etc. which will not fit into office waste paper baskets, it will be the responsibility of tenant to dispose of same. In no event shall tenant set such items in the public hallways or other areas of the Building or garage facility, excepting tenant's owned Leased Premises, for disposal.

5. Landlord reserves the right to reasonably prescribe the date, time, method and conditions that any personal property, equipment, trade fixtures, merchandise and other similar items shall be delivered to or removed from the Building. Major movement of goods or property will be scheduled in off hours in cooperation with Landlord. No iron safe or other heavy or bulky object shall be delivered to or removed from the Building, except by experienced safe men, movers or riggers approved in writing by Landlord. All damage done to the Building by the delivery or removal of such items, or by reason of their presence in the Building, shall be paid to Landlord, immediately upon demand, by the tenant by, through, or under whom such damage was done. There shall not be used in any space, or in the public halls of the Building, either by tenant or by jobbers or others, in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires.

6. The toilet rooms, toilets, urinals, wash bowls and water apparatus shall not be used for any purpose other than for those for which they were constructed or installed, and no sweepings, rubbish, chemicals, or other unsuitable substances shall be thrown or placed therein. The expense of any breakage, stoppage or damage resulting from violation(s) of this rule shall be borne by the tenant by whom, or by whose agents, employees, invitees, licensees or visitors, such breakage, stoppage or damage shall have been caused.

7. No sign, name, placard, advertisement or notice visible from the exterior of any Leased Premises, shall be inscribed, painted or affixed by any tenant on any part of the Building or Project without the prior written approval of Landlord. All signs or lettering on doors, or otherwise, approved by Landlord shall be inscribed, painted or affixed at the sole cost and expense of the tenant, by a person approved by

Landlord. A directory containing the names of all tenants in the Building shall be provided by Landlord at an appropriate place on the first floor of the Building.

8. All areas of the Leased Premises that are visible from the common areas of the Building through glass doors or otherwise shall be kept in a neat and orderly condition.

9. No signalling, telegraphic or telephonic instruments or devices, or other wires, instruments or devices shall be installed by Tenant in connection with any Leased Premises without the prior written approval of Landlord (which approval shall not be unreasonably withheld or delayed) or specifically identified and located on Construction Documents as defined in Schedule 6. Such installations, and the boring or cutting for wires, shall be made at the sole cost and expense of the tenant and under control and direction of Landlord. Landlord retains, in all cases, the right to require (i) the installation and use of such electrical protecting devices that prevent the transmission of excessive currents of electricity into or through the Building, (ii) the changing of wires and of their installation and arrangement underground or otherwise as Landlord may direct, and (iii) compliance on the part of all using or seeking access to such wires with such rules as Landlord may establish relating thereto. All such wires used by tenants must be clearly tagged at the distribution boards and junction boxes and elsewhere in the Building, with (i) the number of the Leased Premises to which said wires lead, (ii) the purpose for which said wires are used, and (iii) the name of the company operating same.

10. Tenant, its agents, servants or employees, shall not (a) go on the roof of the Building, (b) use any additional method of heating or air conditioning the Leased Premises, (c) sweep or throw any dirt or other substance from the Leased Premises into any of the halls, corridors, elevators, or stairways of the Building, (d) bring in or keep in or about the Leased Premises any vehicles or animals of any kind except that persons with disabilities may be accompanied by trained dogs, (e) install any radio or television antennae or any other device or item on the roof, exterior walls, windows or windowsills of the Building, (f) place objects against glass partitions, doors or windows which would be unsightly from the interior or exterior of the Building, (g) use any Leased Premises (i) for lodging or sleeping, (ii) for cooking (except that the use by any tenant of Underwriter's Laboratory-approved equipment for microwaving, brewing coffee, tea and similar beverages shall be permitted, provided that such use is in compliance with law), (iii) for any manufacturing, storage or sale of merchandise or property of any kind, (h) cause or permit unusual or objectionable odor to be produced or permeate from the Leased Premises, including, without limitation, duplicating or printing equipment fumes, and (i) install or operate any vending machines in the Leased Premises, unless specifically identified and located on Construction Documents as defined in Schedule 6. Tenant, its agents, servants and employees, invitees, licensees, or visitors shall not permit the operation of any musical or sound producing instruments or device which may be heard outside Leased Premises, Building or garage facility, or which may emit electrical waves which will impair radio or television broadcast or reception from or into the Building.

11. No canvassing, soliciting, distribution of hand bills or other written material, or peddling by Tenant shall be permitted in the Building or the Project, and tenants shall cooperate with Landlord in prevention and elimination of same.

12. Tenant shall give Landlord prompt notice of all accidents to or defects in air conditioning equipment, plumbing, electrical facilities or any part or appurtenances of Leased Premises.

13. If any Leased Premises becomes infested with vermin by acts of Tenant, the Tenant, at its sole cost and expense, shall cause its premises to be exterminated from time to time to the satisfaction of the Landlord and shall employ such exterminators as shall be approved by Landlord.

14. No curtains, blinds, shades, screens, awnings or other coverings or projections of any nature shall be attached to or hung in, or used in connection with any door, window or wall of the premises of the Building by Tenant without the prior written consent of Landlord.

15. Landlord shall have the right to prohibit any advertising by tenant which, in Landlord's opinion, tends to impair the reputation of Landlord or of the building, or its desirability as an office building for

existing or prospective tenants who require the highest standards of integrity and respectability, and upon written notice from Landlord, tenant shall refrain from or discontinue such advertising.

16. Wherever the word "tenant" occurs, it is understood and agreed that it shall also mean tenant's associates, employees, agents and any other person entering the Building or the Leased Premises under the express or implied invitation of tenant. Tenant shall cooperate with Landlord to assure compliance by all such parties with rules and regulations.

17. Landlord will not be responsible for lost or stolen personal property, equipment, money or any article taken from Leased Premises, Building or garage facilities regardless of how or when loss occurs.

18. Any modifications made by Tenant to the Leased Premises shall be performed either by or under the direction of Landlord but at the cost of Tenant. Notwithstanding the above, no vinyl floor tile shall be removed except by Landlord. All contractors and technicians performing work for Tenant within the Leased Premises shall provide Landlord with certificates of insurance in forms and amounts satisfactory to Landlord naming Landlord and the Managing Agent as additional insureds. The Managing Agent shall be named as an additional insured on Tenant's insurance policy as well in accordance with the insurance provisions of the Lease.

19. Showcases and any other articles shall not be placed in front of or affixed to any part of the exterior of the Building, nor placed in the common area halls, corridors or vestibules which are not by Tenant without the prior written consent of Landlord.

20. The requirements of Tenant will be attended to only upon application to the Managing Agent. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.

21. Subject to the provisions of the Lease, Tenant shall not provide any janitorial services or cleaning without Landlord's written consent and then only subject to supervision of Landlord and at Tenant's sole responsibility and by janitor or cleaning contractor or employees at all times satisfactory to Landlord.

22. Landlord reserves the right to make reasonable amendments, modifications and additions to the rules and regulations heretofore set forth, and to make additional reasonable rules and regulations, as in Landlord's sole judgment may from time to time be needed for the safety, care, cleanliness and preservation of good order of the Building.

23. Business machines and mechanical equipment belonging to or installed by or at the direction of Tenant that cause noise or vibration capable of being transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenant in the Building shall be installed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to reduce such noise and vibration to a level satisfactory to Landlord and such other tenants.

24. Tenant shall not do anything in the Leased Premises, or bring or keep anything therein which will in any way increase or tend to increase the risk of fire or rate of insurance, or which shall conflict with the Regulations of the Fire Department, any fire laws, with any insurance policy on the Building or any part thereof, or with any rules or ordinances established by any governmental authority.

SCHEDULE 3
UTILITY SERVICES

The Landlord shall provide, as part of Operating Costs, except as otherwise provided, the following services:

(1) Air Conditioning and heat for normal purposes only, to provide in Landlord's judgment, comfortable occupancy Monday through Friday from 8:00 a.m. to 6:00 p.m., and Saturday from 8:00 a.m. to 1:00 p.m., Sundays and holidays excepted. Tenant agrees not to use any apparatus or device, in or upon or about the Leased Premises, and Tenant further agrees not to connect any apparatus or device with the conduits or pipes, or other means by which such services are supplied, for the purpose of using additional or unusual amounts of such services, without written consent of Landlord.

Whenever heavy concentration of personnel, motors, machines or equipment, including telephone equipment, used in the Premises adversely affects the temperature or humidity otherwise maintained by the air conditioning system, Landlord reserves the right to install supplementary air conditioning capacity or units in the Premises and the cost thereof, including the cost of installation and the cost of operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord.

(2) Electric power for Tenant lighting and operating of office machines is separately metered and billed by Commonwealth Edison.

(3) Water for drinking, lavatory and toilet purposes from the regular Building supply (at the prevailing temperature) through fixtures installed by Landlord, (or by Tenant with Landlord's written consent).

SCHEDULE 4
MAINTENANCE SERVICES

(1) In order that the Building may be kept in a state of cleanliness, each tenant shall during the term of each respective lease, permit Landlord's employees (or Landlord's agent's employees) to take care of and clean the Leased Premises and tenants shall not employ any person(s) other than Landlord's employees (or Landlord's agent's employees) for such purpose.

(2) Landlord shall supply public restroom supplies, public area lamp replacement, window washing with reasonable frequency, and janitorial services to the common areas of the Building and Leased Premises during the time and in the manner that such janitorial services are customarily furnished in general office buildings in the area.

(3) Landlord agrees to maintain the exterior and common areas of Building to include maintenance of the structure, roof, mechanical, electrical and HVAC equipment, elevators, architectural finish, lawn and shrub care, snow removal and so on, excluding only those items specifically excepted elsewhere in this Lease.

SCHEDULE 4(A)
CLEANING SCHEDULE

Landlord shall furnish janitorial service as described below:

MONDAY THROUGH FRIDAY, INCLUSIVE

1. Sweep, dry mop or vacuum all floors complete.

2. Dust all horizontal surfaces that can be reached without a ladder with a treated cloth, mitt or duster.

3. Clean, polish and sanitize all drinking fountains.

4. Sweep all steps, sidewalks and plazas.

5. Clean passenger elevator cab and landing doors, including floors.

6. Empty all waste containers.

7. Clean all public wash and restrooms.

    (a) All cleaning will be performed with approved germicidal detergents at disinfectant strengths.

    (b) All toilets and urinals will be cleaned on all surfaces nightly; acid bowl cleaner to be used in the interior.

    (c) All wash basins, shelves, dispensers and all other washroom fixtures will be cleaned nightly.

    (d) All mirrors will be cleaned and polished nightly.

    (e) All chrome and other bright work, including exposed plumbing, toilet seat hinges, etc., will be cleaned and polished nightly.

    (f) All water receptacles are to be emptied and cleaned nightly.

    (g) All lavatory floors will be swept and mopped with a germicidal detergent solution nightly.

    (h) Washroom supplies will be replenished as needed.

    (i) Once each month, remove hard water stains from toilet fixtures by using bowl cleaner after normal cleaning. Follow manufacturer's recommendations.

8. All normal rubbish and office waste paper shall be removed from Tenant floors and carried to a designated location. Tenant shall pay Landlord's charges for excess trash removal upon billing as Additional Rent.

WEEKLY

1. Dust and wipe clean with dust cloth all desk tops.

2. Spot clean all doors, switch plates, wall and glass areas adjacent to doors.

3. Dust and wipe all tops of all file cabinets and counters.

4. Sweep building stairwells.

5. Damp mop floors and/or spray buff for heavy scuffs, in necessary.

6. Clean glass in building directory.

7. Wipe all water containers.

8. Wash all glass entrance doors and side panels inside and out.

MONTHLY

9. When possible, sweep and hose down exterior walks, trucking areas and shipping platforms.

10. Dust all windowsills.

11. Shampoo common area carpeting.

EVERY THREE MONTHS

12. Dust vertical surfaces of all furniture.

13. Scrub all resilient floor areas so as to maintain a highly polished surface.

WINDOW CLEANING

Wash all windows, both interior and exterior, two times per year.

SCHEDULE 5
PARKING

Landlord hereby grants to Tenant a license to the use during the term of this Lease the spaces described in Article 1.1(j). Tenant agrees to comply with such reasonable rules and regulations as may be made by Landlord from time to time in order to insure the proper operation of the parking facilities. In consideration of the right to use said parking spaces, Tenant shall pay to Landlord on the first day of each calendar month, the amount specified in Article 1.1(j) in addition to the Rent and other charges payable by Tenant under this Lease. Tenant agrees not to overburden the parking facilities and agrees to cooperate with Landlord and other tenants in the use of parking facilities. Landlord reserves the right in its sole discretion to determine whether parking facilities are becoming crowded, and in such event, to allocate specific parking spaces among Tenant and other tenants or to take such other steps necessary to correct such condition, including but not limited to policing and towing, and if Tenant, its agents, officers, employees, contractors, licensees or invitees are deemed by Landlord to be contributing to such condition, to charge to Tenant as Rent that portion of the cost thereof which Landlord reasonably determines to be caused thereby. Landlord may, in its sole discretion, change the location and nature of the parking spaces available to Tenant, provided that after such change, there shall be available to Tenant approximately the same number of spaces as available before such change.

SCHEDULE 6

1. Definitions. The terms defined in this paragraph, for purposes of this Schedule, shall have the meanings specified below, and, in addition to the terms defined below, terms defined in the Lease shall, for purposes of this Schedule, have the meanings specified in the Lease.

1.01 "LEASEHOLD IMPROVEMENTS" means those items which are supplied, installed and finished by Tenant, according to and described in the Construction Documents (as hereinafter defined) and which shall be paid for by Tenant, subject to the Allowance, as provided for in paragraph 3.03 below.

1.02 "CONSTRUCTION DOCUMENTS" means the approved construction drawings, plans and specifications referred to in paragraph 2.02 below.

1.03 "SUBSTANTIAL COMPLETION" means that the Leasehold Improvements have been substantially completed according to the Construction Documents and certified by Tenant's architect, except for items which will not materially affect the use of the Leased Premises or which customarily are deemed to be "punchlist work".

2. Construction Documents; Payments

2.01 The parties have approved a preliminary floor plan for the Leased Premises, a copy of which is attached to the Lease as Schedule 1 (the "PRELIMINARY PLAN"). Landlord's approval of the Preliminary Plan shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with laws, rules and regulations of governmental agencies or authorities.

2.02 Tenant shall cause to be prepared and submitted to Landlord for approval all drawings, plans and specifications necessary to construct the Leasehold Improvements. Tenant acknowledges that such drawings, plans and specifications shall incorporate entryways that comply with Building standards. Within five (5) business days from the date the documents are submitted ("DOCUMENT APPROVAL PERIOD"), Landlord shall approve or disapprove the documents. At the end of such five (5) business day period, Tenant shall incorporate all reasonable changes requested by Landlord and such revised Documents shall be delivered to Landlord for Landlord's review and approval, which approval shall not be unreasonably withheld or delayed. Upon Landlord's approval of the final form of the drawings, plans and specifications, such approved documents shall constitute the Construction Documents.

The fees and expenses for preparing the drawings, plans and specifications shall be included as part of the cost of the Leasehold Improvements to which the Allowance may apply.

3. Leasehold Improvements

3.01 The following provisions shall apply to the construction of the Leasehold Improvements:

(a) Prior to commencing the Leasehold Improvements, Tenant shall submit to Landlord for Landlord's review and approval (i) the names and addresses of Tenant's contractors (and said contractors (and said contractor's subcontractors) and materialmen to be engaged by Tenant for the Leasehold Improvements (individually, a "TENANT

CONTRACTOR" and collectively, "TENANT'S CONTRACTORS"), and (ii) certified copies of insurance policies or certificates of insurance as hereinafter described. Tenant shall not permit Tenant's Contractors to commence work until the required insurance has been obtained and certified copies of policies or certificates have been delivered to Landlord. Landlord has the right to reasonably approve or disapprove all or any one or more of Tenant's Contractors.

(b) Tenant, at its sole cost and expense (subject to the Allowance, as hereinafter defined), shall perform, or cause to be performed, the Leasehold Improvements in the Leased Premises in accordance with the Construction Documents. The Leasehold Improvements shall be constructed in a good and workmanlike fashion, in accordance with the requirements set forth herein and in compliance with all applicable laws, statutes, ordinances, codes, rules and regulations. Tenant shall commence the construction of the Leasehold Improvements promptly after completion of the preconstruction activities described in paragraph 3.01(a) above and shall diligently proceed with all such construction. Tenant shall coordinate the construction of the Leasehold Improvements so as to avoid unreasonable interference with any other work being performed by or on behalf of Landlord and other tenants of the Building.

(c) Tenant shall, at its own cost and expense, obtain all required building permits and occupancy permits. Tenant's failure to obtain such permits shall not cause a delay in the Lease Commencement Date or the obligation to pay Rent or any other obligations set forth in the Lease.

3.02 If there are any changes in the Leasehold Improvements requested by, or on behalf of, Tenant from the work as reflected in the Construction Documents, each such change must receive the prior written approval of Landlord, which approval shall not be unreasonably withheld or delayed, and Tenant shall bear the cost of all such changes.

3.03 Tenant acknowledges that Landlord's sole monetary obligation is to pay the costs attributable to the construction of the Leasehold Improvements, up to an aggregate maximum limit of $20.00 per square foot of Tenant's Square Footage (the "ALLOWANCE"), and Tenant shall pay all other costs of the construction of the Leasehold Improvements ("TENANT'S SHARE"). In addition, all costs attributable to changes and variations from the Construction Documents (including, without limitation, any fees and expenses of the consultants and any increased costs of construction) shall be paid by Tenant. The Allowance shall be paid out to Tenant from time to time during the course of construction of the Leasehold Improvements, but not more often than once a month. Disbursements of the requested amounts shall be made upon submission to Landlord of the following documents:

(a) a draw request from Tenant in a form acceptable to Landlord, together with copies of the invoices for which payment is being requested;

(b) lien waivers (to the extent available under local law) and sworn statements from Tenant's Contractors, subcontractors, laborers and material suppliers pertaining to the Leasehold Improvements;

(c) a certificate from Tenant's architect that all work (labor and materials) for which the draw request has been made has been completed and performed in a good and workmanlike manner and substantially in accordance with the Construction Documents;

(d) such evidence as Landlord may reasonably require certifying that any portion of the Leasehold Improvements requiring inspection by governmental authorities has been duly inspected and approved; and

(e) such other evidence as Landlord may reasonably require in order to establish that the work for which payment is being requested has been satisfactorily completed and paid for or is to be paid for from the requested disbursement.

In addition, the final payment request shall also be accompanied by (1) final lien waivers from Tenant's Contractor, subcontractors, laborers and material suppliers, (2) as-built drawings of the Leased Premises; and (3) a certificate from Tenant's architect that the Work has been substantially completed in accordance with the Construction Documents.

3.04 Tenant shall pay Landlord a supervisory fee in an amount equal to three percent (3%) of the direct cost of the materials and labor for the Work (and all change orders with respect thereto) to defray Landlord's administrative and overhead expenses incurred to review the Plans and coordinate with Tenant's project manager the staging and progress of the Work.

3.05 Notwithstanding anything to the contrary contained herein, up to $10.00 per square foot of Tenant's Square Footage of the Allowance may be applied to the cost of the following: (i) permits and inspections, (ii) architectural and engineering costs, (iii) Tenant's moving costs, (iv) Landlord's supervisory fees, (v) the costs of consultants utilized by Tenant in connection with the Leased Premises, (vi) furniture or furnishings to be installed in the Leased Premises, (vii) telecommunications and cabling in the Leased Premises, (viii) Tenant's signage at the Leased Premises, and (ix) Base Rent due hereunder.

4. Lease Commencement Date; Delays

4.01 Tenant shall notify Landlord when Substantial Completion has been achieved. In the event Tenant fails to complete the Leasehold Improvements on or before the Lease Commencement Date, Tenant shall be responsible for Rent and all other obligations set forth in the Lease from the Lease Commencement Date regardless of the degree of completion of the Leasehold Improvements on such date, and no such delay in completion of the Leasehold Improvements shall relieve Tenant of any of its obligations under the Lease.

4.02 All delays caused by Tenant-initiated change orders, including, without limitation, any stoppage of work during the change order review process, are solely the responsibility of Tenant and shall cause no delay in the Lease Commencement Date or the payment of Rent and other obligations therein set forth. All increases in the cost of the Work resulting from such change orders shall (subject to the Allowance) be borne by Tenant.

5. Insurance; Indemnity

5.01 In addition to any insurance which may be required under the Lease, Tenant shall secure, pay for and maintain, or cause Tenant's Contractors to secure, pay for and maintain during the continuance of construction and fixturing work within the Building or the Leased Premises, insurance in the following minimum coverages and the following minimum limits of liability;

(a) Worker's Compensation Insurance with limits not less than those required by law.

(b) Commercial General Liability Insurance (including Contractors' Protective Liability) in an amount not less than $1,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof with a minimum aggregate limit of $1,000,000, and with umbrella coverage with limits not less than $10,000,000.00. Such insurance shall provide for explosion and collapse, completed operations coverage and broad form blanket contractual liability coverage and shall insure Tenant's Contractors against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others and arising from its operations under the contracts whether such operations are performed by Tenant's Contractors or by anyone directly or indirectly employed by any of them.

(c) Comprehensive Automobile Liability Insurance, including the ownership, maintenance and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than $500,000.00 for each person in one accident, and $1,000,000.00 for injuries sustained by two or more persons in any one accident and property damage liability in an amount not less than $1,000,000.00 for each accident. Such insurance shall insure Tenant's Contractors against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others arising from its operations under the contracts, whether such operations are performed by Tenant's Contractors, or by anyone directly or indirectly employed by any of them.

(d) "All-risk" Builder's Risk Insurance upon the Leasehold Improvements to the full insurable value thereof. This insurance shall include the interests of Landlord and Tenant (and their respective contractors and subcontractors of any tier to the extent of any insurable interest therein) in the Leasehold Improvements and shall insure against the perils of fire and extended coverage and shall include "all-risk" builder's risk insurance for physical loss or damage including, without duplication of coverage, theft vandalism and malicious mischief. If portions of the Leasehold Improvements are stored off the site of the Building or in transit to said site are not covered under said "all-risk" builder's risk insurance, then Tenant shall effect and maintain similar property insurance on such portions of the Leasehold Improvements. Any loss insured under said "all-risk" builder's risk insurance is to be adjusted with Landlord and Tenant and made payable to Landlord, as trustee for the insureds, as their interests may appear.

5.02 All policies (except the Worker's Compensation policy) shall be endorsed to include as additional insureds, Landlord (and the constituent members of Landlord generally), the Managing Agent, and such additional persons as Landlord may designate. The waiver of subrogation provisions contained in the Lease shall apply to all insurance policies (except the Worker's Compensation policy) to be obtained by Tenant pursuant to this paragraph. The insurance policy endorsements shall also provide that all additional insured parties shall be given thirty (30) days' prior written notice of any reduction, cancellation or non-renewal of coverage (except that ten (10) days' notice shall be sufficient in the case of cancellation for non-payment of premium) and shall provide that the insurance coverage afforded to the additional insured parties thereunder shall be primary to any insurance carried independently by said additional insured parties. Additionally, where applicable, each policy shall contain a cross-liability and severability of interest clause.

5.03 Without limitation of the indemnification provisions contained in the Lease, to the fullest extent permitted by law Tenant agrees to indemnify, protect, defend and hold harmless Landlord, Landlord's property manager and their respective members, beneficiaries, partners, directors, officers, employees and agents, from and against all claims, liabilities, losses, damages and expenses of whatever nature arising out of or in connection with the construction of the Leasehold Improvements or the entry of Tenant or Tenant's Contractors into the Building and the Leased Premises, including, without limitation, mechanic's liens, the cost of any repairs to the Leased Premises or Building necessitated by activities of Tenant or Tenant's Contractors, bodily injury to persons or damage to the property of Tenant, its employees, agents, invitees, licensees or others, except to the extent caused by Landlord's negligence or willful misconduct. It is understood and agreed that the foregoing indemnity shall be in addition to the insurance requirements set forth above and shall not be in discharge of or in substitution for same or any other indemnity or insurance provision of the Lease.

6. Miscellaneous Provisions. Landlord and Tenant further agree as follows:

6.01 Except as herein expressly set forth with respect to the Leasehold Improvements, Landlord has no agreement with Tenant and has no obligation to do any work with respect to the Leased Premises. Any other work in the Leased Premises which may be permitted by Landlord pursuant to the terms and conditions of the Lease shall be done at Tenant's sole cost and expense and in accordance with the terms and conditions of the Lease. Notwithstanding the foregoing, on or before the Lease Commencement Date, Landlord, at Landlord's sole cost and expense, shall construct the common corridor outside the Leased Premises as shown on the Preliminary Plan.

6.02 This Schedule shall not be deemed applicable to: (a) any additional space added to the original Leased Premises at any time, whether by the exercise of any options under the Lease or otherwise, or (b) any portion of the original Leased Premises or any additions thereto in the event of a renewal or extension of the original Lease Term, whether by the exercise of any options under the Lease or any amendment or supplement thereto. The construction of any additions or improvements to the Leased Premises not contemplated by this Schedule shall be effected pursuant to a separate work letter agreement or other document, in the form then being used by Landlord and specifically addressed to the allocation of costs relating to such construction.

6.03 If Tenant fails to make any payment relating to the Leasehold Improvements as required hereunder and such failure shall continue for fifteen (15) days after written notice from Landlord, Landlord, at its option, may complete the Leasehold Improvements pursuant to the Construction Documents and continue to hold Tenant liable for the costs thereof and all other costs due to Landlord. Tenant's failure to pay any amounts owed by Tenant hereunder when due or Tenant's failure to perform its obligations hereunder shall also constitute a default under the Lease and Landlord shall have all the rights and remedies granted to Landlord under the Lease for nonpayment of any amounts owed thereunder or failure by Tenant to perform its obligations thereunder.

6.04 On or before the Lease Commencement Date, Landlord, at Landlord's sole cost and expense, shall construct the common corridor outside the Leased Premises as shown on the Preliminary Plan. The costs incurred by Landlord in constructing the common corridor shall not be charged against the Allowance.

SCHEDULE 7
CERTIFICATE OF ACCEPTANCE

TENANT: PCTEL, Inc.

LEASED PREMISES: Suite 400

LOCATED AT: 8725 West Higgins Road, Chicago, Illinois 60631

This letter is to certify that:

1. The above referenced Leased Premises have been accepted by the Tenant for possession.

2. The Leased Premises are substantially complete in accordance with the plans and specifications used in constructing the demised premises.

3. The Leased Premises can now be used for intended purposes.

Commencement Date _____________________, 20 ___.

Expiration Date _______________________, 20 ___.

Executed this ______ day of ______, 20 ___.

TENANT

PCTEL, Inc.

By: _________________________________

Its: ________________________________

Exhibit 99.1

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

I, Martin Singer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of PCTEL, Inc. on Form 10-Q for the quarterly period ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc.

By: /s/ MARTIN H. SINGER

Name: Martin H. Singer
Title: Chief Executive Officer

I, John Schoen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of PCTEL, Inc. on Form 10-Q for the quarterly period ended June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such quarterly report fairly presents in all material respects the financial condition and results of operations of PCTEL, Inc.

By: /s/ JOHN SCHOEN

Name: John Schoen
Title: Chief Operating Officer
and Chief Financial Officer