UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from to

Commission File Number 000-27115

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

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**77-0364943** **(I.R.S. Employer Identification Number)**
471 Brighton Drive, Bloomingdale, IL **(Address of Principal Executive Office)**	**60108** **(Zip Code)**

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

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

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

As of November 9, 2020, the registrant had 18,719,773 shares of common stock, $0.001 par value per share, outstanding.

PCTEL, INC.
Form 10-Q
For the Quarterly Period Ended September 30, 2020

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements (unaudited)

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

	(unaudited) September 30, 2020		December 31, 2019	
ASSETS				
Cash and cash equivalents	$	4,429	$	7,094
Short-term investment securities		33,103		32,556
Accounts receivable, net of allowances of $111 and $104 at September 30, 2020 and December 31, 2019, respectively		13,955		17,380
Inventories, net		10,290		11,935
Prepaid expenses and other assets		1,207		1,842
Total current assets		62,984		70,807
Property and equipment, net		12,728		11,985
Long-term investment securities		3,735		0
Goodwill		3,332		3,332
Intangible assets, net		0		144
Other noncurrent assets		2,492		2,969
TOTAL ASSETS	**$**	**85,271**	**$**	**89,237**
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Accounts payable	$	2,279	$	3,190
Accrued liabilities		7,094		9,382
Total current liabilities		9,373		12,572
Long-term liabilities		4,557		3,315
Total liabilities		13,930		15,887
Stockholders’ equity:				
Common stock, $0.001 par value, 50,000,000 and 100,000,000 shares authorized at September 30, 2020 and December 31, 2019, respectively, and 18,639,364 and 18,611,289 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively		19		19
Additional paid-in capital		130,267		133,954
Accumulated deficit		(58,759)		(60,305)
Accumulated other comprehensive loss		(186)		(318)
Total stockholders’ equity		71,341		73,350
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$**	**85,271**	**$**	**89,237**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
REVENUES	$ 18,923	$ 23,630	$ 56,271	$ 67,720
COST OF REVENUES	9,348	12,983	28,960	37,720
GROSS PROFIT	9,575	10,647	27,311	30,000
OPERATING EXPENSES:				
Research and development	3,216	3,214	9,315	9,223
Sales and marketing	2,640	2,935	8,179	8,830
General and administrative	2,559	3,214	8,306	10,381
Amortization of intangible assets	0	48	32	170
Restructuring expenses	25	295	124	295
Total operating expenses	8,440	9,706	25,956	28,899
OPERATING INCOME	1,135	941	1,355	1,101
Other (expense) income, net	(84)	393	216	874
INCOME BEFORE INCOME TAXES	1,051	1,334	1,571	1,975
Expense for income taxes	9	6	25	23
NET INCOME	$ 1,042	$ 1,328	$ 1,546	$ 1,952
Net Income per Share:				
Basic	$ 0.06	$ 0.07	$ 0.09	$ 0.11
Diluted	$ 0.06	$ 0.07	$ 0.08	$ 0.11
Weighted Average Shares:				
Basic	18,199	17,922	18,184	17,792
Diluted	18,311	18,181	18,382	18,105
Cash dividend per share	$ 0.055	$ 0.055	$ 0.165	$ 0.165

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
NET INCOME	$ 1,042	$ 1,328	$ 1,546	$ 1,952
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	206	(261)	132	(256)
COMPREHENSIVE INCOME	**$ 1,248**	**$ 1,067**	**$ 1,678**	**$ 1,696**

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

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

	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity of PCTEL, Inc.
BALANCE at JUNE 30, 2020	$ 19	$ 130,853	$ (59,801)	$ (392)	$ 70,679
Stock-based compensation expense	0	433	0	0	433
Issuance of shares for stock options	0	8	0	0	8
Cancellation of shares for payment of withholding tax	0	(2)	0	0	(2)
Dividends paid ($0.055 per share)	0	(1,025)	0	0	(1,025)
Net income	0	0	1,042	0	1,042
Change in cumulative translation adjustment, net	0	0	0	206	206
BALANCE at SEPTEMBER 30, 2020	$ 19	$ 130,267	$ (58,759)	$ (186)	$ 71,341
BALANCE at JUNE 30, 2019	$ 18	$ 133,753	$ (63,431)	$ (211)	$ 70,129
Stock-based compensation expense	0	918	0	0	918
Issuance of shares for stock purchase plans and stock options	1	391	0	0	392
Cancellation of shares for payment of withholding tax	0	(11)	0	0	(11)
Dividends paid ($0.055 per share)	0	(1,017)	0	0	(1,017)
Net income	0	0	1,328	0	1,328
Change in cumulative translation adjustment, net	0	0	0	(261)	(261)
BALANCE at SEPTEMBER 30, 2019	$ 19	$ 134,034	$ (62,103)	$ (472)	$ 71,478
BALANCE at DECEMBER 31, 2019	$ 19	$ 133,954	$ (60,305)	$ (318)	$ 73,350
Stock-based compensation expense	1	1,995	0	0	1,996
Issuance of shares for stock purchase plans and stock options	0	504	0	0	504
Cancellation of shares for payment of withholding tax	0	(1,108)	0	0	(1,108)
Repurchase of common stock	(1)	(1,999)	0	0	(2,000)
Dividends paid ($0.165 per share)	0	(3,079)	0	0	(3,079)
Net income	0	0	1,546	0	1,546
Change in cumulative translation adjustment, net	0	0	0	132	132
BALANCE at SEPTEMBER 30, 2020	$ 19	$ 130,267	$ (58,759)	$ (186)	$ 71,341
BALANCE at DECEMBER 31, 2018	$ 18	$ 133,859	$ (64,055)	$ (216)	$ 69,606
Stock-based compensation expense	0	3,246	0	0	3,246
Issuance of shares for stock purchase plans and stock options	1	729	0	0	730
Cancellation of shares for payment of withholding tax	0	(754)	0	0	(754)
Dividends paid ($0.165 per share)	0	(3,046)	0	0	(3,046)
Net income	0	0	1,952	0	1,952
Change in cumulative translation adjustment, net	0	0	0	(256)	(256)
BALANCE at SEPTEMBER 30, 2019	$ 19	$ 134,034	$ (62,103)	$ (472)	$ 71,478

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

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Activities:		
Net income	$ 1,546	$ 1,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,260	2,152
Intangible asset amortization	144	670
Stock-based compensation	1,996	3,246
Loss on disposal of property and equipment	7	91
Restructuring costs	(40)	268
Bad debt provision	(164)	(3)
Changes in operating assets and liabilities:		
Accounts receivable	3,599	(1,276)
Inventories	1,691	(838)
Prepaid expenses and other assets	1,058	902
Accounts payable	(1,210)	(1,019)
Income taxes payable	(12)	(40)
Other accrued liabilities	(269)	1,485
Deferred revenue	13	5
Net cash provided by operating activities	10,619	7,595
Investing Activities:		
Capital expenditures	(3,373)	(1,366)
Purchases of investments	(40,038)	(38,393)
Redemptions/maturities of short-term investments	35,756	36,844
Net cash used in investing activities	(7,655)	(2,915)
Financing Activities:		
Proceeds from issuance of common stock	504	730
Proceeds from Paycheck Protection Program Loan	3,500	0
Repayment of Paycheck Protection Program Loan	(3,500)	0
Payment of withholding tax on stock-based compensation	(1,108)	(754)
Principle payments on finance leases	(59)	(79)
Purchase of common stock from repurchase program	(2,000)	0
Cash dividends	(3,079)	(3,046)
Net cash used in financing activities	(5,742)	(3,149)
Net (decrease) increase in cash and cash equivalents	(2,778)	1,531
Effect of exchange rate changes on cash	113	(213)
Cash and cash equivalents, beginning of period	7,094	4,329
Cash and Cash Equivalents, End of Period	$ 4,429	$ 5,647

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

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal, recurring nature that are considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K").

Throughout this Quarterly Report on Form 10-Q, including under Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," we disclose certain measures that the Company has taken in response to the macroeconomic impacts of the novel coronavirus ("COVID-19"). The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's business, results of operations and financial condition will depend on future developments that remain highly uncertain at this time.

Nature of Operations

PCTEL, Inc. ("PCTEL", the "Company", "we", "our", and "us") is a leading global supplier of wireless network antenna and test solutions. We design and manufacture precision antennas and provide test & measurement products that improve the performance of wireless networks globally. PCTEL products address three market segments: Enterprise Wireless, Intelligent Transportation, and Industrial Internet of Things ("IoT"). PCTEL antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for the Industrial IoT. PCTEL test & measurement tools improve the performance of wireless networks globally. Mobile operators, neutral hosts, and network equipment manufacturers rely on PCTEL products to analyze, design, and optimize next generation wireless networks.

Our strength is solving complex network engineering problems for our customers through our products and solutions. To this end, we are constantly innovating and improving antenna and wireless testing products and capabilities in order to capture the opportunities and meet the challenges of the rapidly evolving wireless industry. We focus on engineering, research and development to maintain and expand our competitiveness.

PCTEL was incorporated in California in 1994 and reincorporated in Delaware in 1998. Our principal executive offices are located at 471 Brighton Drive, Bloomingdale, Illinois 60108. Our telephone number at that address is (630) 372-6800 and our website is www.pctel.com. Additional information about our Company can be obtained on our website; however, the information within, or that can be accessed through, our website, is not part of this Quarterly Report on Form 10-Q.

Product Lines

Antenna Products

PCTEL designs and manufactures precision antennas and we offer in-house wireless product development for our customers, including design, testing, radio integration, and manufacturing capabilities. PCTEL antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in equipment and devices for the Industrial IoT. Revenue growth in these markets is driven by the increased use and complexity of wireless communications. Consistent with our mission of solving complex network engineering problems and in order to compete effectively in the antenna market, PCTEL maintains expertise in the following areas: radio frequency engineering, wireless network engineering, mechanical engineering, mobile antenna design, manufacturing, and product quality and testing. We seek out product applications that command a premium for product design and performance, and we avoid commodity markets. Our antennas are primarily sold to original equipment manufacturer ("OEM") providers, where they are designed into the customer's solution.

Test & Measurement Products

PCTEL provides radio frequency ("RF") test & measurement tools that improve the performance of wireless networks globally, with a focus on LTE, public safety, and 5G technologies. Network operators, neutral hosts, and equipment manufacturers rely on our scanning receivers and testing solutions to analyze, design, and optimize next generation wireless networks. Revenue growth in this market is driven by the implementation and roll out of new wireless technology standards (i.e., 3G to 4G; 4G to 5G). Consistent with our mission of solving complex network engineering problems and in order to compete effectively in the RF test & measurement market, PCTEL maintains expertise in the following areas: radio frequency engineering, DSP engineering, wireless network engineering, mechanical engineering, manufacturing, and product quality and testing. Our test & measurement equipment is sold directly to wireless carriers or to OEMs who integrate our products into their solutions, which are then sold to wireless carriers.

Basis of Consolidation

The unaudited interim condensed consolidated financial statements of the Company include the condensed consolidated balance sheets for the period ended September 30, 2020 and December 31, 2019, and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive income, the condensed consolidated statements of stockholders' equity and statements of cash flows for the three and nine months ended September 30, 2020 and 2019, respectively. The interim condensed consolidated financial statements are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The condensed consolidated balance sheet as of December 31, 2019 is derived from the audited financial statements as of December 31, 2019.

The unaudited interim condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The significant accounting policies followed by the Company are set forth in the 2019 Form 10-K. There were no material changes in the Company's significant accounting policies during the three and nine months ended September 30, 2020. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2019 Form 10-K. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the 2019 Form 10-K. The results of operations for the period ended September 30, 2020 may not be indicative of the results for the period ending December 31, 2020.

Foreign Operations

The Company is exposed to foreign currency fluctuations due to its foreign operations and because products are sold internationally. The functional currency for the Company's China operations is predominantly the applicable local currency. Accounts of foreign operations are translated into U.S. dollars using the exchange rate in effect at the applicable balance sheet date for assets and liabilities and average monthly rates prevailing during the period for revenue and expense accounts. Adjustments resulting from translation are included in accumulated other comprehensive loss, a separate component of stockholders' equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in the condensed consolidated statements of operations. For the nine months ended September 30, 2020, approximately 3% of revenues and 18% of expenses were transacted in foreign currencies as compared to 6% and 24% for the nine months ended September 30, 2019. Net foreign exchange losses resulting from foreign currency transactions included in other income, net was \$0.2 million and \$0.1 million for the three and nine months ended September 30, 2020, respectively. Net foreign exchange gains resulting from foreign currency transactions included in other income, net was \$0.2 million for the three and nine months ended September 30, 2019, respectively.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases ("Topic 842"), which amended existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This ASU also provides clarifications surrounding the presentation of the effects of leases in the statement of operations and statement of cash flows. The Company adopted Topic 842 on January 1, 2019 using the updated modified transition method. Upon adoption on January 1, 2019, the Company recorded right-of-use assets of \$1.5 million and lease liabilities of \$1.6 million. The Company elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. The Company also elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward historical lease classifications. See Note 10 for additional information and disclosures required by this new standard.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses ("ASU 2016-13"), which modifies the measurement of expected credit losses of certain financial instruments. The Company adopted ASU 2016-13 on January 1, 2020 using a modified retrospective approach. Adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements but required changes to its process of estimating expected credit losses. See Note 4 and Note 6 for further information on the Company's allowance for credit losses.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The Company adopted ASU 2018-15 on January 1, 2020, and it did not have an impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements. The Company adopted ASU 2018-13 on January 1, 2020, and it did not have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies income tax accounting in various areas including, but not limited to, the accounting for hybrid tax regimes, tax implications related to business combinations, and interim period accounting for enacted changes in tax law, along with some codification improvements. The changes related to this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Certain changes in the standard require retrospective or modified retrospective adoption, while other changes must be adopted prospectively. The Company is currently evaluating ASU 2019-12 and its impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-14). This new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The changes are effective for smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact that this guidance will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform ("Topic 848"): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. Topic 848 is effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating the impact of Topic 848 on the consolidated financial statements.

2. Fair Value of Financial Instruments

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

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

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

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

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

3. Income per Share

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Basic Income Per Share computation:				
Numerator:				
Net income	$ 1,042	$ 1,328	$ 1,546	$ 1,952
Denominator:				
Weighted shares outstanding - basic	18,198,567	17,921,552	18,184,441	17,791,764
Net income per common share - basic				
Net income	$ 0.06	$ 0.07	$ 0.09	$ 0.11
Diluted Income Per Share computation:				
Denominator:				
Weighted shares outstanding - basic	18,198,567	17,921,552	18,184,441	17,791,764
Restricted shares subject to vesting	87,006	206,078	167,296	150,287
Performance related awards	23,943	52,332	23,943	162,211
Common stock option grants	1,256	1,195	5,976	666
Weighted shares outstanding - diluted	18,310,772	18,181,157	18,381,656	18,104,928
Net income per common share - diluted				
Net income	$ 0.06	$ 0.07	$ 0.08	$ 0.11

4. Cash, Cash Equivalents and Investments

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

	September 30, 2020	December 31, 2019
Cash	$ 2,869	$ 5,604
Cash equivalents	1,560	1,490
Short-term investments	33,103	32,556
Long-term investments	3,735	0
Total	$ 41,267	$ 39,650

Cash and Cash Equivalents

At September 30, 2020 and December 31, 2019, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At September 30, 2020 and December 31, 2019, the Company's cash equivalents were invested in highly liquid AAA rated money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940. Such funds utilize the amortized cost method of accounting, seek to maintain a constant $1.00 per share price, and are redeemable upon demand. The Company restricts its investments in AAA money market funds to those invested 100% in either short-term U.S. government agency securities or bank repurchase agreements collateralized by these same securities. The fair values of these money market funds are established through quoted prices in active markets for identical assets (Level 1 inputs). The Company's cash in U.S. banks is insured by the Federal Deposit Insurance Corporation up to the insurable limit of $250.

The Company had $1.1 million and $2.1 million of cash and cash equivalents in bank accounts in China at September 30, 2020 and December 31, 2019, respectively. The Company's cash in its China bank accounts is not insured. As of September 30, 2020, the Company has no intentions of repatriating the cash in its foreign bank accounts in China. If the Company decides to repatriate the cash in these China bank accounts, it may have trouble doing so in a timely manner. The Company may also be exposed to foreign currency fluctuations and taxes if it repatriates these funds.

Investments

At September 30, 2020 and December 31, 2019, the Company's investments consisted of corporate bonds with ratings at the purchase date of A or higher and certificates of deposit. All the investments at September 30, 2020 and December 31, 2019 were classified as held-to-maturity. The bonds and certificates of deposit classified as short-term investments have original maturities greater than 90 days and mature within one year and the bonds and certificates of deposit classified as long-term investments have maturities greater than one year but less than two years. The Company's bond investments are recorded at the purchase price and carried at amortized cost.

Effective January 1, 2020, the Company adopted ASU 2016-13. This ASU replaces the incurred loss impairment model with an expected loss impairment model for financial instruments, including short-term investments. The amendment requires entities to consider forward-looking information to estimate expected credit losses. Under ASU 2016-13, the Company classifies its held-to-maturity investment portfolio by the investment type and further classifies the corporate bonds by the bond ratings. For estimating potential credit losses, the Company considers the historical loss data, the bond ratings, as well as and current and future economic conditions. The Company did not record an estimate for credit losses upon adoption of ASU 2016-13 on January 1, 2020 or during the nine months ended September 30, 2020.

Cash equivalents and investments were as follows at September 30, 2020 and December 31, 2019:

	September 30, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Cash equivalents:						
Corporate bonds	$ 0	$ 0	$ 0	$ 0	$ 708	$ 708
Money market funds	1,560	0	1,560	782	0	782
Total Cash Equivalents	$ 1,560	$ 0	$ 1,560	$ 782	$ 708	$ 1,490
Short-Term Investments:						
Corporate bonds	$ 0	$ 29,906	$ 29,906	$ 0	$ 28,710	$ 28,710
Certificates of deposit	3,197	0	3,197	3,846	0	3,846
Total Short-Term Investments	$ 3,197	$ 29,906	$ 33,103	$ 3,846	$ 28,710	$ 32,556
Long-Term Investments:						
Corporate bonds	$ 0	$ 3,225	$ 3,225	$ 0	$ 0	$ 0
Certificates of deposit	510	0	510	0	0	0
Total Long-Term Investments	$ 510	$ 3,225	$ 3,735	$ 0	$ 0	$ 0
Cash equivalents and Investments - book value	$ 5,267	$ 33,131	$ 38,398	$ 4,628	$ 29,418	$ 34,046
Unrealized gains (losses)	$ (1)	$ 1	$ 0	$ 1	$ (11)	$ (10)
Cash equivalents and Investments - fair value	$ 5,266	$ 33,132	$ 38,398	$ 4,629	$ 29,407	$ 34,036

The Company categorizes its financial instruments within a fair value hierarchy according to accounting guidance for fair value. The fair value hierarchy is described under the Fair Value of Financial Instruments in Note 2. For the Level 2 investments, the Company uses quoted prices of similar assets in active markets. The fair values in the table above reflect no net difference between the book value and the fair value at September 30, 2020, and net unrealized losses of $10 at December 31, 2019.

5. Goodwill and Intangible Assets

Goodwill

There were no changes to the goodwill valued at $3.3 million during the three and nine months ended September 30, 2020. The Company performs an annual impairment test of goodwill as of the end of the first month of the fourth fiscal quarter (October 31), or at an interim date if an event occurs or if circumstances change that would indicate that an impairment loss may have been incurred. In performing the annual impairment test, the Company may consider qualitative factors that would indicate possible impairment. A quantitative fair value assessment is also performed at the reporting unit level. If the fair value exceeds the carrying value, then goodwill is not impaired, and no further testing is performed. If the carrying value exceeds the fair value, the implied fair value of goodwill is then compared against the carrying value of goodwill to determine the amount of impairment. In addition to the annual impairment test, the Company is required to regularly assess whether a triggering event has occurred which would require interim impairment testing. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its impact on each of the reporting units. Further, the Company assessed the current market capitalization, forecasts and the amount of headroom in the 2019 impairment test. There were no triggering events during the nine months ended September 30, 2020. The Company will continue to monitor goodwill for impairment going forward.

Intangible Assets

The Company amortizes intangible assets with finite lives on a straight-line basis over the estimated useful lives, which range from one to six years. The summary of amortization expense in the condensed consolidated statement of operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	$ 0	$ 167	$ 111	$ 500
Operating expenses	0	48	33	170
Total	$ 0	$ 215	$ 144	$ 670

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

	September 30, 2020			December 31, 2019		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	$ 16,880	$ 16,880	$ 0	$ 16,880	$ 16,880	$ 0
Patents and technology	10,114	10,114	0	10,114	10,003	111
Trademarks and trade names	4,834	4,834	0	4,834	4,801	33
Other	2,506	2,506	0	2,506	2,506	0
Total	$ 34,334	$ 34,334	$ 0	$ 34,334	$ 34,190	$ 144

The $0.1 million decrease in the net book value of intangible assets at September 30, 2020 compared to December 31, 2019 relates to amortization expense for the nine months ended September 30, 2020.

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

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

The Company's intangible assets were fully amortized as of February 2020. The amortization expense for 2020 is as follows:

Fiscal Year	Amount
2020	$ 144

6. Balance Sheet Information

Accounts Receivable

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

The allowances for accounts receivable consisted of the following:

	September 30, 2020	December 31, 2019
Credit loss provision	$ 68	$ 56
Credit allowances	43	48
Total allowances	$ 111	$ 104

Effective January 1, 2020, the Company adopted ASU 2016-13. This ASU replaces the incurred loss impairment model with an expected loss impairment model for financial instruments, including accounts receivable. The amendment requires entities to consider forward-looking information to estimate expected credit losses. The Company did not record an adjustment upon adoption of ASU 2016-13.

The Company is exposed to credit losses primarily through the sale of products. The Company's expected loss methodology for accounts receivable is developed using historical collection experience, current and future economic market conditions, and a review of the current status of customers' trade accounts receivable. Due to the short-term nature of accounts receivable, the estimate of amount of accounts receivable that may not be collected is based on aging of the account receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and determined that the estimate of credit losses was not significantly impacted. However, the Company has adjusted terms for a few of its customers and it may experience delays with collections due to the COVID-19 pandemic. The Company's allowance for credit losses was $0.1 million at September 30, 2020 and at December 31, 2019. During the nine months ended September 30, 2020, the Company received $0.2 million pursuant to a settlement for a customer accounts receivable balance that was written off in 2018.

The following table summarizes the allowance for credit losses activity during the nine months ended September 30, 2020:

Balance at December 31, 2019	$	56
Current period benefit for credit losses		(164)
Recovery of amounts previously written off		176
Balance at September 30, 2020	$	68

Inventories

Inventories are stated at the lower of cost or net realizable value and include material, labor and overhead costs using the first-in, first-out method of costing. Inventories as of September 30, 2020 and December 31, 2019 were composed of raw materials, work-in-process and finished goods. The Company had consigned inventory with customers of $0.2 million and $0.3 million at September 30, 2020 and December 31, 2019, respectively. The Company records allowances to reduce the value of inventory to the lower of cost or net realizable value, including allowances for excess and obsolete inventory. Reserves for excess inventory are calculated based on an estimate of inventory in excess of normal and planned usage. Obsolete reserves are based on the identification of inventory where the carrying value is above net realizable value. The allowance for inventory losses was $3.8 million and $3.4 million at September 30, 2020 and at December 31, 2019, respectively.

Inventories, net consisted of the following:

	September 30, 2020		December 31, 2019	
Raw materials	$	5,832	$	6,502
Work-in-process		966		913
Finished goods		3,492		4,520
Inventories, net	$	10,290	$	11,935

Prepaid Expenses and Other Assets

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

Property and Equipment

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

Property and equipment consisted of the following:

	September 30, 2020	December 31, 2019
Building	$ 6,880	$ 6,389
Computers and office equipment	9,966	9,847
Manufacturing and test equipment	15,398	14,192
Furniture and fixtures	1,440	1,314
Leasehold improvements	3,067	2,850
Motor vehicles	20	20
Total property and equipment	36,771	34,612
Less: Accumulated depreciation and amortization	(25,813)	(24,397)
Land	1,770	1,770
Property and equipment, net	$ 12,728	$ 11,985

Depreciation and amortization expense were approximately $0.8 million and $0.7 million for the three months ended September 30, 2020 and 2019, respectively. Depreciation and amortization expense were approximately $2.3 million and $2.1 million for the nine months ended September 30, 2020 and 2019, respectively. During the nine months ended September 30, 2020, the Company disposed of $0.9 million of fully depreciated property and equipment. Amortization for finance leases is included in depreciation and amortization expense. See Note 10 for information related to finance leases.

Liabilities

Accrued liabilities consisted of the following:

	September 30, 2020	December 31, 2019
Inventory receipts	$ 2,524	$ 1,431
Payroll and other employee benefits	1,169	1,605
Paid time off	1,146	855
Employee stock purchase plan	419	228
Professional fees and contractors	416	246
Deferred revenues	255	241
Warranties	250	444
Operating leases	177	282
Income and sales taxes	182	133
Real estate taxes	116	152
Customer refunds for estimated returns	109	147
Finance leases	71	77
Restructuring	4	45
Short-term incentive plan	0	2,553
Leasehold improvements	0	702
Other	256	241
Total	$ 7,094	$ 9,382

Long-term liabilities consisted of the following:

	September 30, 2020	December 31, 2019
Operating leases	$ 4,028	$ 3,021
Deferred payroll taxes	318	0
Finance leases	111	164
Deferred revenue	83	119
Other	17	11
Total	$ 4,557	$ 3,315

7. Stock-Based Compensation

The condensed consolidated statements of operations include $0.4 million and $0.9 million of stock compensation expense for the three months ended September 30, 2020 and 2019, respectively. The condensed consolidated statements of operations include $2.0 million and $3.2 million of stock compensation expense for the nine months ended September 30, 2020 and 2019, respectively. The stock compensation expense for the three and nine months ended September 30, 2020 reflects the reduced estimates for the Company's performance-based awards under the long-term incentive plans. The Company accounts for forfeitures as they occur. The Company did not capitalize any stock compensation expense during the three and nine months ended September 30, 2020 and 2019.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Service-based awards	$ 462	$ 472	$ 1,749	$ 1,942
Performance-based awards - short-term incentive plan	0	361	0	990
Performance-based awards - long-term incentive plan	(88)	56	67	170
Employee stock purchase plan	59	29	180	143
Stock options	0	0	0	1
Total	$ 433	$ 918	$ 1,996	$ 3,246

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	$ 61	$ 87	$ 207	$ 292
Research and development	121	158	403	507
Sales and marketing	115	158	429	521
General and administrative	136	515	957	1,926
Total	$ 433	$ 918	$ 1,996	$ 3,246

The following table presents a summary of the remaining unrecognized share-based compensation expense related to outstanding share-based awards as of September 30, 2020:

Award Type	Remaining Unrecognized Compensation Expense	Weighted Average Life (Years)
Service-based awards	$ 1,793	1.3
Performance-based awards	$ 495	2.0
Stock options	$ 1	0.6

<u>**Service-Based Awards**</u>

Restricted Stock

The Company grants service-based stock awards to employees under its long-term incentive plan, the PCTEL, Inc. 2019 Stock Incentive Plan ("LTIP"). For the annual awards granted to executives and key managers in the three months ended March 31, 2020 and 2019, respectively, the awards were comprised one-third of service-based restricted awards and two-thirds of performance-based awards. When service-based restricted stock is granted, the Company records deferred stock compensation within additional paid-in capital, representing the fair value of the common stock on the date the restricted shares are granted. The Company records stock compensation expense on a straight-line basis over the vesting period of the applicable service-based restricted shares.

The following table summarizes service-based restricted stock activity for the nine months ended September 30, 2020:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Awards - December 31, 2019	477,187	$ 6.11
Shares awarded	201,233	7.91
Shares vested	(236,698)	6.20
Shares cancelled	(3,000)	5.92
Unvested Restricted Stock Awards - September 30, 2020	438,722	$ 6.89

In February 2020, the Company issued to employees 153,694 service-based restricted stock awards under the LTIP that vest in three substantially equal annual increments commencing in 2021. In April 2020, as part of our efforts to reduce expenses and conserve cash, the Company reduced the salary of each executive and key manager by 10% and in connection therewith issued restricted stock, under the LTIP, with a one-year vesting period to such employee equal to 5% of his/her salary. In total 47,539 service-based restricted stock awards were issued. The intrinsic value of service-based restricted shares that vested during the three months ended September 30, 2020 and 2019 was $18 and $32, respectively. The intrinsic value of service-based restricted shares that vested during the nine months ended September 30, 2020 and 2019 was $1.9 million and $2.2 million, respectively.

Restricted Stock Units

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

The following table summarizes the restricted stock unit activity during the nine months ended September 30, 2020:

	Shares	Weighted Average Fair Value
Unvested Restricted Stock Units - December 31, 2019	8,117	$ 5.83
Units awarded	6,448	7.48
Units vested/Shares awarded	(5,482)	5.80
Unvested Restricted Stock Units - September 30, 2020	9,083	$ 7.02

The intrinsic value of service-based restricted stock units that vested and were issued as shares during the nine months ended September 30, 2020 and 2019 was $44 and $30, respectively. No service-based restricted stock units vested during the three months ended September 30, 2020 or 2019.

<u>Stock Options</u>

The Company may grant new employees stock options to purchase common stock. The Company issues stock options with exercise prices no less than the fair value of the Company's stock on the grant date. Employee stock options are subject to installment vesting typically over a period of not less than three years. Stock options may be exercised at any time prior to their expiration date or within 180 days of termination of employment, or such shorter time as may be provided in the related stock option agreement. Under the LTIP, new options can have a ten-year life. The stock options outstanding at September 30, 2020 have a seven-year life.

A summary of the Company's stock option activity for the nine months ended September 30, 2020 is as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2019	150,246	$ 7.11
Options exercised	(61,767)	7.13
Options forfeited	(188)	5.00
Options cancelled/expired	(72,041)	7.23
Outstanding at September 30, 2020	16,250	$ 6.54
Exercisable at September 30, 2020	15,431	$ 6.53

During the nine months ended September 30, 2020, the Company received proceeds of $0.1 million from the exercise of options for 9,412 shares and issued 10,194 shares for the exercise of 52,355 options. The intrinsic value of the options exercised was $0.1 million. During the nine months ended September 30, 2019, the Company received minimal proceeds from the exercise of options for 500 shares. The intrinsic value of the options exercised was also minimal. The Company did not grant stock options during the nine months ended September 30, 2020 or 2019.

The range of exercise prices for options outstanding and exercisable at September 30, 2020, was $5.06 to $8.21. The following table summarizes information about stock options outstanding under all stock option plans:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 5.06	7,000	2.96	$5.06	6,895	$5.06
$ 6.98 - $ 7.55	4,750	2.41	7.22	4,036	7.26
$ 8.09 - $ 8.21	4,500	1.17	8.12	4,500	8.12
$ 5.06 - $ 8.21	16,250	2.30	$ 6.54	15,431	$6.53

The weighted average contractual life and intrinsic value of options outstanding and options exercisable at September 30, 2020, was the following:

	Weighted Average Contractual Life (years)	Intrinsic Value
Options Outstanding	2.30	$ 4
Options Exercisable	2.20	$ 4

The intrinsic value is based on the share price of $5.66 at September 30, 2020.

There were no stock options granted during the nine months ended September 30, 2020. For outstanding stock options, the Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models may not necessarily provide a reliable single measure of the fair value of the employee stock options. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility and expected option life.

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

Performance-Based Equity Awards

Short-Term Incentive Plan

Incentive compensation earned by executives and key managers under the Company's 2020 Short-Term Incentive Plan ("STIP") will be settled 50% in cash and 50% in shares of the Company's stock as was the case with the 2019 STIP. Under both the 2020 STIP and

2019 STIP, payouts are earned based on revenue and adjusted EBITDA targets. Shares valued at $1.2 million earned pursuant to the 2019 STIP were issued to executives and key managers during the first quarter 2020. For the 2019 STIP, the Company issued 129,285 shares net of shares withheld for taxes.

Long-Term Incentive Plan

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

The following table summarizes the performance award activity:

At Target	Awards		Weighted Average Fair Value
Unvested Performance Awards - December 31, 2019	171,437	$	5.27
Awards granted	145,289		8.70
Unvested Performance Awards - September 30, 2020	316,726	$	6.84

The Company granted performance awards under its long-term incentive plan to executives and key managers in February 2020 ("2020 LTIP") and in February 2019 ("2019 LTIP"). Under both the 2020 LTIP and 2019 LTIP, shares of the Company's stock can be earned based on achievement of a three-year revenue growth target with a penalty if a certain adjusted EBITDA level is not maintained. If the Company achieves less than the target growth over the performance period, the participant will receive fewer shares than the target award, determined on a straight-line basis. If the Company achieves greater than the target growth, the participant will receive more shares than the target award on an accelerated basis. Participants are required to be in service at the determination date of the award following the end of the performance period in order to receive the award. Shares earned under the 2020 LTIP and 2019 LTIP will be fully vested shares. The Company records stock compensation expense over the performance period based on the Company's estimate of the aggregate number of shares that will be earned under the incentive plan.

The performance period for the 2020 LTIP is from January 1, 2020 through December 31, 2022. At target, the total fair market value of the award was $1.3 million based on the share price of $8.70 on the grant date. On the award date, the aggregate number of shares that could be earned at target was 145,289 and the maximum number of aggregate shares that could be earned was 254,256.

The performance period for the 2019 LTIP is from January 1, 2019 through December 31, 2021. At target, the total fair market value of the award was $0.9 million based on the share price of $5.27 on the grant date. On the award date, the aggregate number of shares that could be earned at target was 174,117 and the maximum number of aggregate shares that could be earned was 300,015. During the year ended December 31, 2019, the target and maximum shares that can be earned declined by 2,680 and 4,690, respectively due to employee terminations.

Employee Stock Purchase Plan ("ESPP")

The ESPP enables eligible employees to purchase common stock at the lower of 85% of the fair market value of the common stock on the first or last day of each offering period. Each offering period is approximately six months. The Company received proceeds of $0.4 million from the issuance of 77,297 shares under the ESPP in April 2020. The Company received proceeds of $0.4 million from the issuance of 85,483 shares under the ESPP in August 2019 and received proceeds of $0.3 million from the issuance of 95,376 shares under the ESPP in February 2019.

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

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

	Employee Stock Purchase Plan	
	2020	2019
Dividend yield	4.1%	4.1%
Risk-free interest rate	0.1%	2.5%
Expected volatility	44%	34%
Expected life (in years)	0.5	0.5

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

Board of Director Equity Awards

The Company grants equity awards to members of its Board of Directors as an annual retainer and for committee service. These awards are shares of the Company's stock that vest upon issuance. In addition, new directors receive a one-time grant that vests over three years. In the second quarter of 2020, the Company issued 60,998 shares with a fair value of $0.4 million to directors for their annual retainer and committee service. The shares vested immediately upon issuance.

The following table summarizes the director awards activity:

	Shares	Weighted Average Fair Value
Outstanding - December 31, 2019	4,831	$ 6.90
Shares awarded	60,998	6.59
Shares vested	(63,413)	6.60
Outstanding - September 30, 2020	2,416	$ 6.90

Employee Withholding Taxes on Stock Awards

For ease in administering the issuance of stock awards, the Company holds back shares of vested restricted stock awards, stock option exercises and short-term and long-term incentive plan stock awards for the value of the statutory withholding taxes. For everyone receiving a share award, the Company redeems the shares it computes as the value for the withholding tax and remits this amount to the appropriate tax authority. For withholding taxes related to stock awards, the Company paid $1.1 million and $0.8 million during the nine months ended September 30, 2020 and 2019, respectively.

Stock Repurchases

On November 6, 2019, the Board of Directors approved a share repurchase program, which was reauthorized on March 10, 2020 pursuant to which the Company was authorized to repurchase up to $7.0 million of its common stock through the end of 2020. The Company spent $2.0 million to repurchase 375,046 shares at an average price of $5.36 during the three months ended March 31, 2020. The Company cancelled the repurchased shares. Due to uncertainties related to the COVID-19 pandemic and to protect the Company's cash position, on April 1, 2020 the Board of Directors approved the termination of the stock repurchase program. On November 4, 2020, the Board of Directors approved a new, $5.0 million share repurchase program. Please refer to Note 14 for additional information.

Authorized Shares

On May 29, 2020, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation (i) changing the Company's name from "PC-Tel, Inc." to "PCTEL, Inc." and (ii) decreasing the number of authorized shares of common stock from 100,000,000 shares to 50,000,000 shares.

8. Benefit Plans

Employee Benefit Plans

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

The Company's contributions to retirement plans during the three and nine months ended September 30, 2020 and 2019, respectively, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
PCTEL, Inc. 401(k) profit sharing plan - US employees	$ 164	$ 165	$ 560	$ 484
Defined contribution plans - foreign employees	9	111	41	356
Total	$ 173	$ 276	$ 601	$ 840

Contributions for foreign employees were lower for the nine months ended September 30, 2020 because employer contributions to Chinese government sponsored retirement programs were not required for the first nine months of fiscal 2020.

9. Commitments and Contingencies

China Restructuring

On August 7, 2019, the Board of Directors approved a transition plan for the Company's China manufacturing operations. In order to optimize the cost structure of the antenna product line, reduce fixed costs in China and increase the Company's competitiveness, the Company is transitioning high-volume manufacturing from its Tianjin, China facility to contract manufacturers in China and elsewhere. The Company incurred restructuring expenses during the nine months ended September 30, 2020 of $0.1 million for employee severance related to the separation of 12 employees. The severance payments for these employees were paid during the second and third quarters of 2020. Commencing in the third quarter 2019 and through the third quarter 2020, the Company has separated 96 Tianjin employees and incurred total restructuring expense of $0.6 million for severance costs. Severance costs are paid from the Company's cash in its China bank accounts.

On October 8, 2020, the lease of the premises on which the Company's China manufacturing operations are conducted expired and the renewal is pending and uncertain. The Company has been notified that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the Company's leased premises is located and, accordingly, leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The Company has not received an indication of the likelihood of approval of its lease extension. As a result of the uncertainty regarding the Tianjin Lease (as defined in Note 10) renewal, the Company is refining and accelerating its transition plan for the manufacturing activities conducted on the leased premises. As part of the acceleration of the transition plan, the Company will reduce additional headcount in Tianjin and incur additional restructuring charges for severance and other non-cash costs. The Company is currently assessing the additional severance cost it will incur in 2021. See Note 10 and the risk factors in Part II, Item 1A for additional information.

Lease Termination

In 2016, the Company exited from its Colorado office in order to consolidate facility space and in the second quarter 2017 signed a sublease for the office space. The lease and the sublease terminated in October 2020.

The following table summarizes the restructuring activity during the nine months ended September 30, 2020 and the status of the reserves at September 30, 2020:

	Severance	Lease Termination	Total
Balance at December 31, 2019	$ 12	$ 33	$ 45
Restructuring expense	124	0	124
Payments made	(136)	(106)	(242)
Payments received	0	77	77
Balance at September 30, 2020	$ 0	$ 4	$ 4

The restructuring liability is recorded in accrued liabilities on the condensed consolidated balance sheet at September 30, 2020 and December 31, 2019.

Warranty Reserve and Sales Returns

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company accrues for product returns based on historical sales and return trends. The refund liability related to estimated sales returns was $0.1 million at September 30, 2020 and December 31, 2019, respectively, and is included within accrued liabilities on the accompanying condensed consolidated balance sheets.

The Company offers repair and replacement warranties of up to five years for certain antenna products and test & measurement products. The Company's warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was $0.3 million at September 30, 2020 and $0.4 million at September 30, 2019, respectively, and is included in accrued liabilities in the accompanying condensed consolidated balance sheets.

The following table summarizes the warranty activity during the nine months ended September 30, 2020 and 2019:

-

	Nine Months Ended September 30,	
	2020	2019
Beginning balance	$ 444	$ 339
Provisions for warranties	$ 9	207
Consumption of reserves	$ (203)	(146)
Ending balance	$ 250	$ 400

10. Leases

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

Right of Use ("ROU") assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the net present value of fixed lease payments over the lease term. The Company's lease term is deemed to include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU assets also include any advance lease payments made and exclude lease incentives. As most of the Company's operating leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments on a collateralized basis. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

The Company's lease cost for the nine months ended September 30, 2020 and 2019, respectively, included the following components:

	Nine Months Ended September 30,	
	2020	2019
Operating lease costs	$ 538	$ 673
Short-term lease costs	77	71
Variable lease costs	2	19
Amortization of finance lease assets	59	78
Interest on finance lease liabilities	6	6
Total lease cost	$ 682	$ 847

The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases recorded on the balance sheet as of September 30, 2020:

Year	Operating Leases	Finance Leases
2020	$ 48	$ 19
2021	472	73
2022	558	48
2023	569	32
2024	581	21
Thereafter	3,174	0
Total minimum payments required	5,402	193
Less: amount representing interest	1,197	11
Present value of net minimum lease payments	4,205	182
Less: current maturities of lease obligations	(177)	(71)
Long-term lease obligations	$ 4,028	$ 111

The weighted average remaining lease terms and discount rates for all the Company's operating and finance leases were as follows as of September 30, 2020:

	September 30, 2020
Weighted-average remaining lease term - finance leases	3.1 years
Weighted-average remaining lease term - operating leases	9.8 years
Weighted-average discount rate - finance leases	4.0%
Weighted-average discount rate - operating leases	5.0%

The table below presents supplemental cash flow information related to leases during the nine months ended September 30, 2020 and 2019, respectively:

	Nine Months Ended September 30,	
	2020	2019
Cash paid for (received) amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 262	$ 684
Operating cash flows from tenant improvements incentives from operating leases	$ (1,004)	$ 0
Operating cash flows for finance leases	$ 6	$ 6
Financing cash flows for finance leases	$ 59	$ 79

The following table summarizes the classification of ROU assets and lease liabilities as of September 30, 2020 and December 31, 2019:

Leases	Consolidated Balance Sheet Classification	September 30, 2020	December 31, 2019
Assets:			
Operating right-of-use assets	Other noncurrent assets	$ 2,317	$ 2,696
Finance right-of-use assets	Other noncurrent assets	175	234
Total leased assets		$ 2,492	$ 2,930
Liabilities:			
Current			
Operating lease liabilities	Accrued liabilities	$ 177	$ 282
Finance lease liabilities	Accrued liabilities	71	77
Noncurrent			
Operating lease liabilities	Long-term liabilities	4,028	3,021
Finance lease liabilities	Long-term liabilities	111	164
Total lease liabilities		$ 4,387	$ 3,544

In January 2019, the Company entered into an eleven-year lease ending February 28, 2031 for 21,030 square feet of office space in Clarksburg, Maryland for the Company's test & measurement product line. The Company moved the operations for its test & measurement product line from its Germantown, Maryland office to the new office in January 2020. The Company recognized a present value right of use asset of $2.1 million in August 2019, which was the lease commencement date for accounting purposes. The present value of the right of use asset reflects 14 months of rent abatement and $1.5 million in tenant improvement incentives in the form of cash reimbursements which the Company fully utilized.

In July 2020, the Company signed a one-year lease renewal for its engineering design center in Beijing, China. Under the new lease, the square footage was reduced from 11,210 square feet to 5,393 square feet. The lease period ends on June 14, 2021 and the total lease obligation is approximately $0.1 million.

On March 5, 2020, PCTEL (Tianjin) Wireless Telecommunications Products, Co. Ltd., a wholly-owned subsidiary of the Company ("PCTEL Tianjin"), entered into a letter agreement with Wang Zhuang Village Committee of Tianjin, China (the "Letter Agreement") specifying the terms for extension of the lease of the premises on which PCTEL Tianjin currently conducts its manufacturing activities in Tianjin, China (the "Tianjin Lease") to October 2022. The Letter Agreement did not, however, effect the lease extension. The Tianjin Lease expired on October 8, 2020 without extension. On October 16, 2020, the Wang Zhuang Village Committee issued a notice informing PCTEL Tianjin that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the leased premises is located, and accordingly leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The letter indicates that if the Tianjin Lease extension is subsequently approved, the rent for the period from October 9, 2020 to the date of the Tianjin Lease extension (the "Intervening Period") will then be due and payable. If the Tianjin Lease extension is not approved, PCTEL Tianjin will need to vacate the premises and no rent will be due for the Intervening Period. PCTEL Tianjin has not received an indication of the likelihood of approval of the Tianjin Lease extension, the length of the Intervening Period or the notice period for vacating the leased premises; provided, however, based upon past practices and verbal assurances, the Company believes that PCTEL Tianjin will have not less than 30 days to vacate the leased premises if the Lease Extension is not approved. See risk factors in Section IA for additional information on the Tianjin lease. See the risk factors in Part II, Item 1A for additional information.

11. Income Taxes

The Company recorded income tax expense of $25 and $23 for the nine months ended September 30, 2020 and 2019, respectively. The expense recorded for the nine months ended September 30, 2020 and 2019 was lower than the statutory rate of 21% because the Company has a full valuation allowance on its deferred tax assets. The Company's valuation allowance is due to the uncertainty regarding the utilization of the deferred tax assets.

The Company had deferred tax assets net of deferred tax liabilities of $13.5 million at September 30, 2020 and at December 31, 2019. The deferred tax assets consisted of domestic deferred tax assets of $13.0 million and foreign deferred tax assets of $0.5 million. The Company's gross deferred tax assets consist of federal and state net operating losses ("NOLs"), credits, and timing differences. The Company's federal NOLs generated in 2019 and 2018 have an infinite life, and the Company's NOLs and credits generated as of December 31, 2017 have a finite life primarily based on the 20-year carry forward of federal net operating losses. The timing differences have a ratable reversal pattern over 12 years. On a regular basis, the Company evaluates the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. The Company considers multiple factors in its evaluation of the need for a valuation allowance. The Company's full valuation allowance against its deferred tax assets was $13.5 million at September 30, 2020 and December 31, 2019. The Company generated book and tax income during 2019 but incurred significant losses in 2018 resulting in a cumulative break-even position for the three years ended December 31, 2019. The Company recorded pretax book income for the nine months ended September 30, 2020 and believes its financial outlook remains positive; however, the COVID-19 pandemic has created a high level of uncertainty. Because of difficulties with forecasting financial results historically, and due to the uncertainties associated with the COVID-19 pandemic, the Company maintained a full valuation allowance on its deferred tax assets at September 30, 2020. The analysis that the Company prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance.

The Company files a consolidated federal income tax return, income tax returns with various states, and foreign income tax returns in various foreign jurisdictions. The Company's U.S. federal tax returns remain subject to examination for 2017 and subsequent periods. The Company's U.S. state tax returns remain subject to examination for 2015 and subsequent periods. The Company's foreign tax returns remain subject to examination for 2011 and subsequent periods. The Company's gross unrecognized tax benefit was $0.8 million at September 30, 2020 and December 31, 2019, respectively.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security Act" (CARES Act) was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Under the CARES Act, the Company is deferring the employer portion of social security taxes and will apply for a refund of its Alternative Minimum Tax credit. For the nine months ended September 30, 2020, the Company has deferred $0.3 million of payroll taxes. The payroll taxes will be deferred until the due dates of December 31, 2021 and December 31, 2022. The Company records a deferred tax asset for the payroll tax liability that is not deductible in 2020 for income tax purposes.

12. Product Line, Customer and Geographic Information

Product Line Information:

The following tables are the product line revenues and gross profits for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020			
	Antenna Products	Test & Measurement	Corporate	Total
Revenues	$ 12,326	$ 6,810	$ (213)	$ 18,923
Gross Profit	$ 4,336	$ 5,203	$ 36	$ 9,575
Gross Profit %	35.2%	76.4%	NA	50.6%

	Nine Months Ended September 30, 2020			
	Antenna Products	Test & Measurement	Corporate	Total
Revenues	$ 37,696	$ 19,011	$ (436)	$ 56,271
Gross Profit	$ 13,228	$ 14,109	$ (26)	$ 27,311
Gross Profit %	35.1%	74.2%	NA	48.5%

	Three Months Ended September 30, 2019			
	Antenna Products	Test & Measurement	Corporate	Total
Revenues	$ 16,463	$ 7,240	$ (73)	$ 23,630
Gross Profit	$ 5,712	$ 4,937	$ (2)	$ 10,647
Gross Profit %	34.7%	68.2%	NA	45.1%

	Nine Months Ended September 30, 2019			
	Antenna Products	Test & Measurement	Corporate	Total
Revenues	$ 47,565	$ 20,301	$ (146)	$ 67,720
Gross Profit	$ 16,142	$ 13,834	$ 24	$ 30,000
Gross Profit %	33.9%	68.1%	NA	44.3%

Geographic Information:

The Company's revenue from customers by geographic location, as a percent of total revenues for the three and nine months ended September 30, 2020 and 2019, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Region	**2020**	**2019**	**2020**	**2019**
Europe, Middle East & Africa	16%	12%	16%	13%
Asia Pacific	8%	6%	9%	9%
Other Americas	3%	4%	2%	3%
Total Foreign sales	27%	22%	27%	25%

Customer Concentration:

There were no customers that accounted for 10% or more of revenues during the three and nine months ended September 30, 2020 and 2019.

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

Trade Accounts Receivable	September 30, 2020	December 31, 2019
Customer A	16%	15%
Customer B	0%	11%
Customer C	12%	8%

13. Revenue from Contracts with Customers

Under Topic 606, a contract with a customer is an agreement which both parties have approved, that creates enforceable rights and obligations, has commercial substance, and specified payment terms, and for which collectability is probable. Once the Company has entered into a contract, it is evaluated to identify performance obligations. For each performance obligation, revenue is recognized as control of promised goods or services transfers to the customer in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The amount of revenue recognized takes into account variable consideration, such as returns and volume rebates. A majority of the Company’s revenue is short cycle in nature with shipments within one year from order. The Company's payment terms generally range between 30 to 90 days.

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

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

The Company allows its major distributors and certain other customers to return unused product under specified terms and conditions. The Company estimates product returns based on historical sales and return trends and records a corresponding refund liability. The refund liability was $0.1 million at September 30, 2020 and December 31, 2019 and is included within accrued liabilities in the accompanying condensed consolidated balance sheets. The Company records an asset based on historical experience for the amount of product it expects to return to inventory as a result of customer returns, which is recorded in inventories in the accompanying condensed consolidated balance sheets. The product return asset was $0.1 million at September 30, 2020 and December 31, 2019.

There were no contract assets at September 30, 2020 or December 31, 2019. The Company records contract liabilities for deferred revenue and customer prepayments. Contract liabilities are recorded in accrued liabilities in the accompanying condensed consolidated balance sheets. The contract liability was $0.4 million and $0.2 million at September 30, 2020 and December 31, 2019, respectively. The Company recognized revenue of $0.2 million and $0.1 million during the three months ended September 30, 2020 and 2019, respectively, related to contract liabilities that existed at the beginning of the period. The Company recognized revenue of $0.6 million and $0.4 million during the nine months ended September 30, 2020 and 2019, respectively, related to contract liabilities that existed at the beginning of the period.

14. Subsequent Events

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

On March 5, 2020, PCTEL (Tianjin) Wireless Telecommunications Products, Co. Ltd., a wholly-owned subsidiary of the Company ("PCTEL Tianjin"), entered into the Letter agreement with Wang Zhuang Village Committee of Tianjin, China specifying the terms for extension of the lease of the premises on which PCTEL Tianjin currently conducts its manufacturing activities in Tianjin, China (the "Tianjin Lease") to October 2022. The Letter Agreement did not, however, effect the lease extension. The Tianjin Lease expired on October 8, 2020 without extension. On October 16, 2020, the Wang Zhuang Village Committee issued a notice informing PCTEL Tianjin that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the leased premises is located, and accordingly leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The letter indicates that if the Tianjin Lease extension is subsequently approved, the rent for the period from October 9, 2020 to the date of the Tianjin Lease extension (the "Intervening Period") will then be due and payable. If the Tianjin Lease extension is not approved, PCTEL Tianjin will need to vacate the premises and no rent will be due for the Intervening Period. PCTEL Tianjin has not received an indication of the likelihood of approval of the Tianjin Lease extension, the length of the Intervening Period or the notice period for vacating the leased premises; provided, however, based upon past practices and verbal assurances, the Company believes that PCTEL Tianjin will have not less than 30 days to vacate the leased premises if the Lease Extension is not approved. See the risk factors in Part II, Section 1A for additional information on the Tianjin Lease.

On November 4, 2020, the Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to $5.0 million of its common stock. The plan will be effective November 10, 2020 through December 31, 2021. Such repurchases may be made from time to time at prevailing prices in the open market, by block purchases, in private transactions or otherwise. The repurchases will be funded with cash on hand.

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

The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the consolidated financial statements for the year ended December 31, 2019 contained in our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Form 10-K”). Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses, revenue mix and the impact on our business from the COVID-19 pandemic. These forward-looking statements include, among others, those statements including the words “may,” “will,” “plans,” “seeks,” “expects,” “anticipates,” “intends,” “believes” and words of similar meaning. Such statements constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. No undue reliance should be placed on these forward-looking statements. Our actual results could differ materially from those projected in these forward-looking statements. Specifically, the statements about our expectations regarding the impact of the COVID-19 pandemic; our future financial performance; growth of our antenna solutions and test and measurement businesses; the impact of our transition plan for manufacturing inside and outside China; the impact of the uncertainty regarding the renewal of our lease of our Tianjin, China manufacturing premises; the anticipated demand for certain products including those related to public safety, Industrial IoT, 5G and intelligent transportation; the impact of tariffs on certain imports from China; and the anticipated growth of public and private wireless systems are forward-looking statements within the meaning of the safe harbor. These statements are based on management’s current expectations and actual results may differ materially from those projected as a result of certain risks and uncertainties, including the disruptions to our workforce, operations, supply chain and customer demand caused by the COVID-19 pandemic and impact of the pandemic on our results of operations, financial condition and stock price; the impact of data densification and IoT on capacity and coverage demand; the impact of 5G; customer demand and growth generally in our defined market segments, including demand from customers in China; and our ability to grow our business and create, protect and implement new technologies and solutions. These forward-looking statements are made only as of the date hereof, and PCTEL disclaims any obligation to update or revise the information contained in any forward-looking statement, whether as a result of new information, future events or otherwise.

COVID-19 Update

The COVID-19 pandemic has disrupted the global economy and adversely impacted our business, including demand for our products. We experienced sequentially higher revenues for our test & measurement products in the third quarter, but demand declined for our antenna products. The public health situation, global response measures and corresponding impacts on various markets remain fluid and uncertain and may lead to sudden changes in trajectory and outlook.

Our foremost focus continues to be the health and safety of our employees. We continue to operate in accordance with our enhanced health and safety compliance program, which adheres to guidance from the U.S. Centers for Disease Control and Prevention and local health and governmental authorities and required social distancing, physical separation, personal protective equipment and enhanced sanitization. Our production facilities in Bloomingdale, Illinois, Clarksburg, Maryland, and Tianjin, China were operating at full capacity during the third quarter. Employees whose duties permit working remotely continue to do so, including our executive, sales, engineering, marketing, and customer service teams. Virtually all employees remain subject to travel restrictions and access to our premises by non-employees is restricted.

In order to help mitigate the negative financial impact caused by the pandemic, we executed a number of temporary cost saving measures: (i) reduced our capital spending plan for the year without deferring strategic ongoing initiatives; (ii) reduced operating expenses through temporary salary and director fee reductions; (iii) implemented a hiring freeze; and (iv) reduced discretionary spending. We did not however, terminate or furlough employees. We also terminated our then-existing stock repurchase program as of April 1, 2020 with $5.0 million remaining. On November 4, 2020, our Board of Directors approved a new $5.0 million stock repurchase program. See Part II, Item 5 of this Form 10-Q for additional information. Because we were able to maintain our profitability and cash position in the second quarter and based on our third quarter outlook, in July 2020 we reinstated the salaries for all employees not identified as an executive or key manager and approved the hiring for open positions. In August 2020, the reinstatement of 5% of the salary reductions for executives and key managers and director fees were approved.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the scope, severity and duration of the pandemic, its impact on our customers and suppliers and the direct and indirect economic effects of the range of governmental reactions to the pandemic, which are uncertain and cannot be fully predicted at this time. Although the COVID-19 pandemic has adversely impacted our operations and financial results, we have remained profitable and we continue to pursue our research and development and growth strategies.

Overview

Revenues for the three months ended September 30, 2020 were $18.9 million, a decrease of 19.9% compared to $23.6 million for the same period in 2019. By product line, revenues decreased by $0.4 million (5.9%) to $6.8 million for test & measurement products and decreased by $4.1 million (25.1%) to $12.3 million for antenna products. The decline in revenues was driven in part by customer delays resulting from the COVID-19 pandemic. Gross profits of $9.6 million for the quarter decreased by $1.1 million compared to the same period in 2019 primarily due to the lower revenues. Operating expense of $8.4 million was $1.3 million lower than the third quarter 2019 due to lower expenses in both sales and marketing and general and administrative expenses. The decrease in these operating expenses was due to lower variable compensation and lower travel expenses. The net impact of these changes resulted in lower income before tax in the third quarter 2020 compared to the same period last year. The net income before tax was $1.1 million for the three months ended September 30, 2020 compared to $1.3 million for the same period in 2019.

Revenues for the nine months ended September 30, 2020 were $56.3 million, a decrease of 16.9%, compared to $67.7 million for the same period in 2019. By product line, revenues decreased by $1.3 million (6.4%) to $19.0 million for test & measurement products and decreased by $9.9 million (20.7%) to $37.7 million for antenna products. The decline in revenues was driven in part by customer delays resulting from the COVID-19 pandemic. Gross profits of $27.3 million decreased by $2.7 million compared to the same period in the prior year primarily due to the lower revenues. Operating expense of $26.0 million was $2.9 million lower than the same period in the prior year due to lower expenses in both sales and marketing expenses and with general and administrative expenses. The decrease in these expenses was due to the temporary cost reductions we implemented in response to the pandemic, lower variable compensation expenses, and lower travel expenses. The net impact of these changes resulted in a decrease in income before tax of $0.4 million for the nine months ended September 30, 2020 compared to the same period in 2019. Net income before tax was $1.6 million and $2.0 million for the nine months ended September 30, 2020 and 2019, respectively. Our cash and investments increased in the third quarter by $1.7 million and as of September 30, 2020, we had cash and investments of $41.3 million and no debt.

Description of Business

PCTEL is a leading global supplier of wireless network antenna products and test & measurement solutions.

Antenna Products. We design and manufacture precision antennas that improve the performance of wireless networks globally. PCTEL antennas address three market segments: Enterprise Wireless, Intelligent Transportation, and Industrial IoT. PCTEL antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in network equipment and devices for the Industrial IoT. Revenue growth in these markets is driven by the increased use and complexity of wireless communications. Consistent with our mission to solve complex network engineering problems and in order to compete effectively in the antenna market, PCTEL maintains expertise in the following areas: radio frequency engineering, wireless network engineering, mechanical engineering, mobile antenna design, manufacturing, and product quality and testing. We seek out product applications that command a premium for product design and performance and customer service, and we avoid commodity markets. PCTEL antennas are primarily sold to OEM providers where they are designed into the customer’s solution.

Test & Measurement Products. We provide radio frequency (“RF”) test & measurement tools that improve the performance of wireless networks globally with a focus on LTE, public safety, and 5G technologies. Network operators, neutral hosts, and equipment manufacturers rely on our test & measurement products to analyze, design, and optimize next generation wireless networks. Revenue growth is driven by the implementation and roll out of new wireless technology standards (i.e. 3G to 4G, 4G to 5G). Consistent with our mission to solve complex network engineering problems and in order to compete effectively in the RF test & measurement market, PCTEL maintains expertise in the following areas: radio frequency engineering, digital signal process engineering, wireless network engineering, mechanical engineering, manufacturing, and product quality and testing. Our test & measurement products are sold directly to wireless carriers or to OEM providers who integrate our products into their solutions which are then sold to wireless carriers.

Results of Operations
Three and Nine Months Ended September 30, 2020 and 2019
(in thousands)

<u>Revenues by Product Line</u>

	Three Months Ended September 30,			
	2020	2019	$ Change	% Change
Antenna Products	$ 12,326	$ 16,463	$ (4,137)	-25.1%
Test & Measurement Products	6,810	7,240	(430)	-5.9%
Corporate	(213)	(73)	(140)	not meaningful
Total	$ 18,923	$ 23,630	$ (4,707)	-19.9%

	Nine Months Ended September 30,			
	2020	2019	$ Change	% Change
Antenna Products	$ 37,696	$ 47,565	$ (9,869)	-20.7%
Test & Measurement Products	19,011	20,301	(1,290)	-6.4%
Corporate	(436)	(146)	(290)	not meaningful
Total	$ 56,271	$ 67,720	$ (11,449)	-16.9%

Revenues decreased 19.9% for the three months ended September 30, 2020 compared to the same period in 2019 due to lower revenues for both the antenna and the test & measurement product lines. For the three months ended September 30, 2020, revenues decreased for the antenna product line by 25.1% compared to the same period in 2019 as a result of decreased revenues generated by antennas for public safety and intelligent transportation systems. Revenues for antenna applications were negatively impacted in part by delays in customer orders as a result of the COVID-19 pandemic. Revenues for the test & measurement product line decreased 5.9% for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, primarily due to lower revenues for products with technologies other than 5G technologies.

Revenues decreased 16.9% for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to lower revenues for both the antenna and test and measurement product lines. For the nine months ended September 30, 2020, revenues decreased for the antenna product line by 20.7% compared to the same period in 2019 as a result of decreased revenues generated by antennas for public safety, fleet applications, and small cells. Revenues for small cell antennas declined due to lower demand from Huawei Technologies Co., Ltd. and revenues in the other antenna markets were also negatively impacted in part by delays in customer orders as a result of the COVID-19 pandemic. Revenues for the test & measurement product line decreased 6.4% for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to lower revenues for products with technologies other than 5G technologies.

<u>Gross Profit by Product Line</u>

	Three Months Ended September 30,			
	2020	% of Revenues	2019	% of Revenues
Antenna Products	$ 4,336	35.2%	$ 5,712	34.7%
Test & Measurement Products	5,203	76.4%	4,937	68.2%
Corporate	36	not meaningful	(2)	not meaningful
Total	$ 9,575	50.6%	$ 10,647	45.1%

	Nine Months Ended September 30,			
	2020	% of Revenues	2019	% of Revenues
Antenna Products	$ 13,228	35.1%	$ 16,142	33.9%
Test & Measurement Products	14,109	74.2%	13,834	68.1%
Corporate	(26)	not meaningful	24	not meaningful
Total	$ 27,311	48.5%	$ 30,000	44.3%

The gross profit percentage increased by 5.5% for the three months ended September 30, 2020 compared to the same period in 2019 due to higher gross profit percentages for each product line. The gross profit percentage for the antenna product line increased by

0.5% for the three months ended September 30, 2020 compared to the same period in 2019 due to a more favorable mix within the product line and cost reductions related to our products manufactured in China. The gross profit percentage for test & measurement products increased by 8.2% for the three months ended September 30, 2020 compared to the same period in 2019 due to a revenue mix with more software content and lower inventory reserve provision expense. Additionally, there was no intangible amortization expense in cost of sales for test & measurement products in the three months ended September 30, 2020 compared to $0.2 million in the comparable period in 2019.

The gross profit percentage increased by 4.2% for the nine months ended September 30, 2020 compared to the same period in 2019 due to higher gross profit percentages for each of the product lines and a higher percentage of revenues from test & measurement products. Higher-margin test & measurement products comprised approximately 34% of the revenues in the nine months ended September 30, 2020 compared to approximately 30% of the revenues in the same period in 2019. The gross profit percentage for the antenna product line increased by 1.2% for the nine months ended September 30, 2020 compared to the same period in 2019 due to more favorable mix within the product line and cost reductions related to our products manufactured in China. The gross profit percentage for test & measurement products increased by 6.1% for the nine months ended September 30, 2020 compared to the same period in 2019 due to a revenue mix with more software content and lower inventory reserve provision expense as well as reduced intangible amortization expense in cost of sales for test & measurement products.

Consolidated Operating Expenses

	Three Months Ended September 30, 2020	Change	Three Months Ended September 30, 2019	% of Revenues 2020	% of Revenues 2019
Research and development	$ 3,216	$ 2	$ 3,214	17.0%	13.6%
Sales and marketing	2,640	(295)	2,935	14.0%	12.4%
General and administrative	2,559	(655)	3,214	13.5%	13.6%
Amortization of intangible assets	0	(48)	48	0.0%	0.2%
Restructuring expenses	25	(270)	295	0.1%	1.2%
Total	$ 8,440	$ (1,266)	$ 9,706	44.6%	41.0%

	Nine Months Ended September 30, 2020	Change	Nine Months Ended September 30, 2019	% of Revenues 2020	% of Revenues 2019
Research and development	$ 9,315	$ 92	$ 9,223	16.6%	13.6%
Sales and marketing	8,179	(651)	8,830	14.5%	13.0%
General and administrative	8,306	(2,075)	10,381	14.8%	15.3%
Amortization of intangible assets	32	(138)	170	0.1%	0.3%
Restructuring expenses	124	(171)	295	0.2%	0.4%
Total	$ 25,956	$ (2,943)	$ 28,899	46.2%	42.6%

Research and development expenses were approximately the same for the three months ended September 30, 2020 compared to the same period in 2019. For the nine months ended September 30, 2020, research and development expenses were higher by $0.1 million compared to the same period in 2019. Increased spending on outside services and materials for product development and for depreciation expense offset lower incentive compensation expenses in the three and nine months ended September 30, 2020 versus the comparable periods in the prior year.

For the three months ended September 30, 2020, spending on outside services and materials increased by $0.2 million while incentive compensation expense was lower by $0.2 million compared to the same period in the prior year. For the nine months ended September 30, 2020, spending on outside services and materials increased by $0.5 million and depreciation expense increased by $0.2 million, while incentive compensation expense was lower by of $0.6 million compared to the same period in the prior year.

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

Sales and marketing expenses decreased $0.3 million for the three months ended September 30, 2020 compared to the same period in 2019 as travel expenses declined by $0.2 million and commissions declined by $0.2 million, offset higher net salaries of $0.1 million. Sales and marketing expenses decreased $0.7 million for the nine months ended September 30, 2020 compared to the same period in 2019 as travel expenses declined by $0.5 million, commissions declined by $0.3 million and a recovery of a bad debt write-off of $0.2 million offset higher net salaries of $0.3 million.

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

General and administrative expenses decreased by $0.7 million for the three months ended September 30, 2020 compared to the same period in 2019 as cash-based incentive compensation expenses declined by $0.3 million and stock compensation expenses declined by $0.4 million.

General and administrative expenses decreased by $2.1 million for the nine months ended September 30, 2020 compared to the same period in 2019 as cash-based incentive compensation expenses declined by $0.6 million, stock compensation expenses declined by $1.0 million, director fees declined by $0.1 million and other corporate costs declined by $0.4 million.

Amortization of intangible assets within operating expenses was zero for the three months ended September 30, 2020 and was lower by approximately $0.1 million for the nine months ended September 30, 2020 compared to the same period in 2019 as certain intangible assets became fully amortized during the first quarter 2020. As of March 31, 2020, all intangible assets were fully amortized.

Restructuring expenses of $0.1 million for the nine months ended September 30, 2020 consisted of employee severance and payroll related costs associated with the termination of ten employees in connection with our transition of certain manufacturing activities in our Tianjin, China facility to contract manufacturers. Commencing in the third quarter 2019 and through the third quarter 2020, we separated 94 Tianjin employees and incurred total restructuring expense of $0.6 million for severance costs. During the remainder of 2020, we expect to reduce headcount in Tianjin by an additional 25 to 30 employees and estimate additional restructuring charges of approximately $0.3 million, consisting of severance and other non-cash expenses.

Other Income (Expense), Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest income	$ 76	$ 200	$ 353	$ 652
Foreign exchange gains (losses)	(158)	198	(139)	226
Other, net	(2)	(5)	2	(4)
Total	$ (84)	$ 393	$ 216	$ 874
Percentage of revenues	(0.4)%	1.7%	0.4%	1.3%

Other income (expense), net consists of interest income, foreign exchange gains (losses), and interest expense. Interest income from investment securities decreased during the three and nine months ended September 30, 2020 compared to the prior year periods, primarily due to lower average interest rates. Foreign exchange losses during the three and nine months ended September 30, 2020 were related to fluctuation in the Chinese Yuan compared to the U.S. dollar. The foreign exchange gains during the three and nine months ended September 30, 2019 were also related to the fluctuations in the Chinese Yuan compared with the U.S. Dollar.

Expense for Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Expense for income taxes	$ 9	$ 6	$ 25	$ 23
Effective tax rate	0.9%	0.4%	1.6%	1.2%

We recorded income tax expense of $25 and $23 for the nine months ended September 30, 2020 and 2019, respectively. The expense recorded for the three and nine months ended September 30, 2020 and 2019 differed from the Federal statutory rate of 21% primarily because we have a full valuation allowance on our deferred tax assets. The full valuation allowance is due to the uncertainty regarding the utilization of the deferred tax assets.

On a regular basis, we evaluate the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment. We considered multiple factors in our evaluation of the need for a valuation allowance. The full valuation allowance against our deferred tax assets was $13.5 million at September 30, 2020 and December 31, 2019. The deferred tax assets consist of domestic deferred tax assets of $13.0 million and foreign deferred tax assets of $0.5 million.

We generated book and tax income during 2019 but incurred significant losses in 2018, resulting in a cumulative break-even position for the three years ended December 31, 2019. We recorded pretax book income for the nine months ended September 30, 2020 and believe our financial outlook remains positive. However, the COVID-19 pandemic has created a high level of uncertainty. Because of difficulties with forecasting financial results historically, due to the uncertainties associated with the COVID-19 pandemic, we maintained a full valuation allowance on our deferred tax assets at September 30, 2020. The analysis that we prepared to determine the valuation allowance required significant judgment and assumptions regarding future market conditions as well as forecasts for profits, taxable income, and taxable income by jurisdiction. Due to the sensitivity of the analysis, changes to the assumptions in subsequent periods could have a material effect on the valuation allowance. See Note 11 to the condensed consolidated financial statements for more information related to income taxes.

Net Income

Revenues were lower by approximately 20.0% in the third quarter 2020 compared to the prior year which resulted in lower gross margins, but the net impact of lower operating expenses resulted in higher operating profit of $0.2 million versus the comparable period in the prior year. Operating expenses declined by $1.3 million as lower stock compensation, variable compensation, intangible amortization, travel expenses, and restructuring expenses contributed to the expense decrease. Net income decreased to $1.0 million from $1.3 million for the three months ended September 30, 2020 compared to the same period in the prior year because other income (expense) was lower by $0.5 million in the three months ended September 30, 2020 compared to the same period in 2019. Lower interest income as a result of lower interest rates and foreign exchange losses due to fluctuations in the US Dollar versus the Chinese Yuan resulted in net expense in the three months ended September 30, 2020.

Revenues were lower by approximately 17.0% for the nine months ended September 30, 2020 which resulted in lower gross margins, but the net impact of lower operating expenses resulted in higher operating profit of $0.3 million versus the comparable period in the prior year. Operating expenses declined by $2.9 million as lower stock compensation, variable compensation, intangible amortization, travel expenses, and restructuring expenses contributed to the expense decrease. Net income decreased from $2.0 million to $1.5 million for the nine months ended September 30, 2020 because other income (expense) was lower by $0.7 million in the nine months ended September 30, 2020 compared to the same period in 2019. Lower interest income as a result of lower interest rates and foreign exchange losses due to fluctuations in the US Dollar versus the Chinese Yuan resulted in net expense in the nine months ended September 30, 2020.

Liquidity and Capital Resources

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Net cash flow provided by (used in):				
Operating activities	$	10,619	$	7,595
Investing activities	$	(7,655)	$	(2,915)
Financing activities	$	(5,742)	$	(3,149)
Net (decrease) increase in cash and cash equivalents	$	(2,778)	$	1,531

	September 30, 2020		December 31, 2019	
Cash and cash equivalents at the end of period	$	4,429	$	7,094
Short-term investments at the end of period	$	33,103	$	32,556
Long-term investments at the end of period	$	3,735	$	0
Working capital at the end of period	$	53,611	$	58,235

Overview

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

Within operating activities, we are historically a net generator of operating funds from our income statement activities. During the nine months ended September 30, 2020, our balance sheet provided operating funds. In periods of expansion, we expect to use cash from our balance sheet.

Within investing activities, capital spending historically ranges between 2.0% and 4.0% of our revenues and the primary use of capital is for manufacturing, engineering, and product development. Our capital expenditures during the nine months ended September 30, 2020 were abnormally high at 6.0% of revenues because of leasehold improvements and office equipment for our new office and production facility for test & measurement products in Clarksburg, Maryland. We historically have made significant transfers between investments and cash as we rotate our large cash balances and short-term investment balances between money market funds, which are accounted for as cash equivalents, and other investment vehicles. We have a history of supplementing our organic revenue with acquisitions of product lines or companies, resulting in significant uses of our cash and short-term investment balances from time to time. We expect the historical trend for capital spending and the variability caused by moving money between cash and investments and periodic merger and acquisition activity to continue in the future.

Within financing activities, we have historically generated funds from the exercise of stock options and proceeds from the issuance of common stock through the ESPP. We have historically used funds to issue dividends and we periodically repurchase shares of our common stock through share repurchase programs. On November 6, 2019, the Board of Directors approved a share repurchase program, which was re-approved on March 10, 2020 pursuant to which we were authorized to repurchase up to $7.0 million of our common stock through the end of 2020. We used $2.0 million for the repurchase of shares during the first quarter 2020, which was funded with cash on hand. On April 1, 2020, our Board of Directors terminated the share repurchase program due to the uncertainty of the impact of the COVID-19 pandemic on our financial results and to protect our cash position during the second and third quarters of 2020. On November 4, 2020, our Board of Directors approved a new, $5.0 million share repurchase program, which will be effective November 10, 2020 through December 31, 2020.

At September 30, 2020, our cash, cash equivalents, and investments (short-term and long-term) were approximately $41.3 million, and we had working capital of $53.6 million. As the COVID-19 pandemic continues to evolve, we are proactively managing our costs and our working capital in order to protect our financial position and maintain our workforce. During the second quarter 2020, we took several actions to preserve cash and liquidity, including by implementing temporary cost reductions, delaying non-essential capital expenditures and suspending our stock repurchase program. Because we were able to maintain our profitability and cash position in the second quarter and based on our third quarter outlook, as of July 2020, we reinstated salaries for all employees not identified as an executive or key manager. In July 2020, we also lifted our hiring freeze and approved hiring for open positions. In August 2020, we approved the reinstatement of 5% of the salary reductions for executives and key managers and we eliminated the reduction in director fees. Management believes our cash and investments provide adequate liquidity and working capital to support our operations given our historic ability to generate free cash flow (cash flow from operations less capital spending) and our lack of debt.

Operating Activities:

Operating activities generated $10.6 million of cash during the nine months ended September 30, 2020. We generated $5.7 million of cash from our statement of operations activities and $4.9 million from the balance sheet. The balance sheet was a net source of cash as reductions in accounts receivable and inventories were partially offset by the reduction in accounts payable. Accounts receivable decreased by $3.6 million primarily because revenues declined by $4.0 million for the three months ended September 30, 2020 compared to the three months ended December 31, 2019. The reduction in accounts payable primarily relates to the reduction in inventories.

Operating activities generated $7.6 million of cash during the nine months ended September 30, 2019. We generated $8.4 million of cash from our statement of operations activities and used $0.8 million from the balance sheet. The balance sheet used net cash as accounts receivable increased and we lowered our accounts payable balance. Accounts receivable increased by $1.3 million due to an increase in revenue for the nine months ended September 30, 2019 compared to the same period in 2018. Accrued liabilities increased by $1.5 million primarily due to bonus accruals for our short-term incentive plan. Inventories increased by $0.8 million primarily driven by test and measurement equipment for 5G technologies.

Investing Activities:

Our investing activities used $7.7 million of cash during the nine months ended September 30, 2020. During the nine months ended September 30, 2020, redemptions and maturities of our investments provided $35.8 million in funds and we rotated $40.0 million of cash into new investments. We used $3.4 million for capital expenditures during the nine months ended September 30, 2020, primarily related to our new leased facility in Clarksburg, Maryland. We used cash of $1.4 million for leasehold improvements and other facility related equipment for the facility which opened in January 2020. During the nine months ended September 30, 2020 we received $1.0 million in tenant allowances for the Clarksburg facility. The tenant allowance is reflected in operating activities.

Our investing activities used $2.9 million of cash during the nine months ended September 30, 2019. During the nine months ended September 30, 2019, redemptions and maturities of our short-term investments provided $36.8 million in funds and we rotated $38.4 million of cash into new short-term investments. We used $1.4 million for capital expenditures during the nine months ended September 30, 2019.

Financing Activities:

We used $5.7 million in cash for financing activities during the nine months ended September 30, 2020. We used $3.1 million for quarterly cash dividends, and $2.0 million for share repurchases in the first quarter. We used $1.1 million for payroll taxes related to restricted stock awards and shares issued under the short-term incentive plan. On April 16, 2020, we received a $3.5 million paycheck protection program ("PPP") loan from the Small Business Administration. Based upon subsequent guidance regarding PPP loan eligibility, we returned the funds on April 30, 2020.

We used $3.1 million in cash for financing activities during the nine months ended September 30, 2019. We used $3.0 million for quarterly cash dividends. We received $0.7 million in proceeds from the purchase of shares through our ESPP and we used $0.8 million for payroll taxes related to stock-based compensation. The tax payments related to restricted stock awards.

Off-Balance Sheet Arrangements

None

Contractual Obligations and Commercial Commitments

We had purchase obligations of $9.7 million and $8.0 million at September 30, 2020 and December 31, 2019, respectively, for the purchase of inventory as well as for other goods and services in the ordinary course of business. Balances for purchases currently recognized as liabilities on the balance sheet are excluded.

We had a liability of $0.8 million related to income tax uncertainties at September 30, 2020 and December 31, 2019. We do not know the timing of the settlement of this liability.

Critical Accounting Policies and Estimates

We use certain critical accounting policies as described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" of the 2019 Form 10-K. There have been no material changes in any of our critical accounting policies since December 31, 2019. See Note 1 to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Item 3: Quantitative and Qualitative Disclosures about Market Risk

See our 2019 Form 10-K (Item 7A). As of September 30, 2020, there have been no material changes in this information.

Item 4: Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1: Legal Proceedings

We are the subject of various pending or threatened legal actions in the ordinary course of our business. All such matters are subject to many uncertainties and outcomes that are not predictable with assurance. In our opinion, as of September 30, 2020, there were no claims or litigation pending that would be reasonably likely to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Item 1A: Risk Factors

See our 2019 Form 10-K (Item 1A). As of November 9, 2020, there have been no material changes in this information except for updates based on the following risk factors:

The COVID-19 pandemic has adversely impacted, and poses risks to, our business, the nature and extent of which are highly uncertain and unpredictable.

In January 2020, the World Health Organization (the “WHO”) declared a Public Health Emergency of International Concern, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic. This pandemic has resulted in a global health crisis that is adversely affecting broader economies, financial markets, and our business environment. We are monitoring the global impact of the COVID-19 pandemic and taking steps to mitigate the accompanying risks by working with our employees, customers, suppliers, and other stakeholders. The pandemic has adversely affected, and is expected to continue to adversely affect, certain elements of our business. Portions of our workforce have been unable to work effectively due to illness and containment measures, including quarantines, facility closures, illness precautions, travel restrictions, and other restrictions. We experienced volatility and delays in customer demand as their businesses were impacted by the pandemic. If the pandemic continues and conditions worsen, we may experience additional adverse impacts on our operational and commercial activities, including rising costs, volatility in customer orders and purchases and declines in collections of accounts receivable, which may be material. Furthermore, the pandemic has impacted and may further impact the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates and interest rates. Due to the global breadth of the pandemic, and the range of governmental and community reactions thereto, there is uncertainty around its duration, ultimate impact, and the timing of recovery. Therefore, the pandemic could lead to an extended disruption of economic activity and the impact on our stock price, consolidated results of operations, financial position and cash flows could be material.

We have significant international operations and conducting business in foreign countries involves additional financial, operating, and regulatory risks.

A substantial portion of our manufacturing, and a portion of our research and development and sales activities is conducted outside the United States, primarily in China.

On March 5, 2020, PCTEL (Tianjin) Wireless Telecommunications Products, Co. Ltd., a wholly-owned subsidiary of the Company (“PCTEL Tianjin”), entered into a letter agreement with Wang Zhuang Village Committee of Tianjin, China (the “Letter Agreement”) specifying the terms for extension of the lease of the premises on which PCTEL Tianjin currently conducts its manufacturing activities in Tianjin, China (the “Tianjin Lease”) to October 2022. The Letter Agreement did not, however, effect the lease extension. The Tianjin Lease expired on October 8, 2020 without extension. On October 16, 2020, the Wang Zhuang Village Committee issued a notice informing PCTEL Tianjin that the Chinese Party Central Committee and the State Council are accelerating the layout optimization and transformation of the industrial park in which the leased premises is located, and accordingly leases and lease extensions for all premises in the industrial park have been suspended and rent collection has been postponed. The letter indicates that if the Tianjin Lease extension is subsequently approved, the rent for the period from October 9, 2020 to the date of the Tianjin Lease extension (the “Intervening Period”) will then be due and payable. If the Tianjin Lease extension is not approved, PCTEL Tianjin will need to vacate the premises and no rent will be due for the Intervening Period. PCTEL Tianjin has not received an indication of the likelihood of approval of the Tianjin Lease extension, the length of the Intervening Period or the notice period for vacating the leased premises; provided, however, based upon past practices and verbal assurances, the Company believes that PCTEL Tianjin will have not less than 30 days to vacate the leased premises if the Lease Extension is not approved.

As a result of the uncertainty regarding the Tianjin Lease renewal, the Company is accelerating and refining its contingency transition plan for transition of the manufacturing activities conducted on the leased premises. Under the contingency transition plan, the Company will utilize its existing contract manufacturers in China and elsewhere and its Bloomingdale, Illinois facility for production of the products currently produced on the leased premises. Once transitioned, the Company does not intend to later resume production of the transitioned products on the leased premises even if permitted. If PCTEL Tianjin is given an opportunity to extend the Tianjin Lease, PCTEL Tianjin will seek to extend the term for a short period in which the transition will be ongoing. While the Company believes that it will be able to maintain its supply chain and on-time product delivery during the transition period, the contemplated transition of production may initially result in quality issues, delays of in product deliveries and increased production costs which could negatively impact the Company's revenue, expenses and reputation. The Company is devoting substantial resources to assure the least disruptive transition of manufacturing processes allowed by the transition time allotted.

In addition, there are a number of risks inherent in doing business in foreign countries, including: (i) fluctuations in the value of the U.S. dollar relative to other currencies, and in particular the impact of a re-valuation of the Chinese Yuan; (ii) impact of tariffs or trade wars among the countries in which we do business; (iii) difficulties in repatriation of earnings; (iv) disruption to our supply chain, whether as a result of the spread of COVID-19 or other factors which limit our ability to import materials and export products; (v) nationalist sentiment creating advantages for our competitors in their home countries and regions; (vi) impact of labor unrest; (vii) unexpected legal or regulatory changes, particularly changes related to the COVID-19 pandemic or environmental, labor or manufacturing regulations; (viii) lack of sufficient protection for intellectual property rights and the risk of theft and forced transfer of intellectual property; (ix) difficulties in recruiting and retaining personnel and managing international operations; (x) under-developed infrastructure; and (xi) other unfavorable political or economic factors which could include nationalization of the wireless communications or related industries. If we are unable to manage successfully these and other risks pertaining to our international activities, our operating results, cash flows and financial position could be materially and adversely affected.

Disruption in our manufacturing and supply chains could adversely impact our sales and reputation.

We assemble our antenna products in our facilities located in Bloomingdale, Illinois and Tianjin, China and test & measurement products at our facility in Clarksburg, Maryland. We may experience delays, disruptions, or capacity constraints (whether due to the non-renewal of our Tianjin, China facility lease, the COVID-19 pandemic or otherwise) or quality control problems at our assembly facilities, which could result in lower yields or delays of product shipments to our customers. In addition, a number of our antenna products are currently manufactured in China via contract manufacturers and we are transitioning additional products currently manufactured in our Tianjin facility to contract manufacturers in China and elsewhere. Any disruption of our own or contract manufacturers' operations could cause delayed product delivery, which could negatively impact our sales, competitive reputation, and position. Moreover, if we do not accurately forecast demand for our products, we will have excess or insufficient parts to build our products, either of which could materially affect our operating results and may lead to obsolete inventory.

Given the dynamic nature of the COVID-19 pandemic, our operations, including our manufacturing facilities and those of our contract manufacturers, may slow again depending on whether there are future resurgences in infection rates and the imposition of additional containment measures. Early in the first quarter 2020, our Tianjin, China facility ceased production for approximately one month and our Chinese contract manufacturers ceased production for several weeks due to the COVID-19 outbreak in China, and our U.S. manufacturing facilities shut down for two weeks in April 2020 and operated at less than full capacity in May 2020. We have limited in-house manufacturing capability. For some product lines, we outsource the manufacturing, assembly, and testing of printed circuit board subsystems. For other product lines, we purchase completed hardware platforms and add our proprietary software. While our suppliers have no unique capability, any failure by these suppliers to meet delivery commitments could cause delayed product delivery and potentially disrupt our supply chain and ability to accept new orders for products. The spread of COVID-19 has impacted supply chains worldwide and may impact our ability to produce and sell products.

In addition, in the event that for any reason our suppliers discontinue manufacturing materials used in our products, we would be forced to incur the time and expense of finding a new supplier or to modify our products in such a way that such materials were not necessary. Either of these alternatives could result in increased manufacturing costs and increased prices of our products.

In summary, in order to be successful, we must manage our operations to limit the cost of product production, accurately forecast demand for our products, avoid excess production and inventory that results in waste or obsolescence, dual source critical materials to avoid shortages and delays in shipping, build for manufacturability and avoid excessive quality issues.

The COVID-19 pandemic could have the effect of heightening many of the other risks described in Item 1A of the 2019 Form 10-K including, without limitation, the following:

- Any delays in our sales cycles could result in customers canceling purchases of our products.
- The trading price of our stock fluctuates, sometimes significantly, based upon a variety of factors, many of which are not under our control.

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

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

On November 4, 2020, the Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to $5.0 million of its common stock. The plan will be effective November 10, 2020 through December 31, 2021. Such repurchases may be made from time to time at prevailing prices in the open market, by block purchases, in private transactions or otherwise. The repurchases will be funded with cash on hand.

Item 6: Exhibits

Exhibit No.	Description
10.1*	Form of Indemnification Agreement between PCTEL, Inc. and each of its directors and officers, as amended and restated August 5, 2020.
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from PCTEL, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted Inline XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statement of Operations, (ii) the Unaudited Condensed Consolidated Balance Sheet, (iii) the Unaudited Condensed Consolidated Statement of Stockholders' Equity, (iv) the Unaudited Condensed Consolidated Statement of Cash Flows, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* filed herewith
** furnished herewith

SIGNATURE

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

PCTEL, Inc.,
a Delaware corporation

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

Date: November 9, 2020

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

Date: November 9, 2020

EXHIBIT 10.1

PCTEL, INC.

AMENDED AND RESTATED INDEMNIFICATION AGREEMENT

This Amended and Restated Indemnification Agreement (“Agreement”) is made as of August 5, 2020 by and between PCTEL, Inc., a Delaware corporation (the “Company”), and __________ (“Indemnitee”). Except as provided herein, this Agreement supersedes and replaces any and all previous agreements between the Company and Indemnitee covering the subject matter of this Agreement.

RECITALS

WHEREAS, directors, officers, and other persons in service to publicly-held corporations and other business enterprises are subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the corporation or business enterprise itself;

WHEREAS, the Board of Directors of the Company (the “Board”) believes that highly competent persons have become more reluctant to serve publicly-held corporations as directors or officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company and its stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, Indemnitee may be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (the “DGCL”), and the DGCL expressly provides that the indemnification provisions set forth therein are not exclusive, and thereby contemplates that contracts may be entered into between the Company and members of the Board, officers and other persons with respect to indemnification;

WHEREAS, the Amended and Restated Certificate of Incorporation of the Company, as amended (the “Certificate of Incorporation”) eliminates the personal liability of directors to the fullest extent permitted by the DGCL;

WHEREAS, the Certificate of Incorporation and the Amended and Restated Bylaws of the Company (the “Bylaws”) require indemnification of the officers and directors of the Company to the fullest extent permitted by the DGCL;

WHEREAS, the Board has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities;

WHEREAS, it is reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, Indemnitee may not be willing to serve or continue to serve as an officer or director without the supplemental protections and indemnifications afforded to it under this Agreement; and

WHEREAS, the Company desires to enter into this Agreement in order to induce Indemnitee to serve or continue to serve as an officer or director of the Company.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. Services to the Company. Indemnitee agrees to serve as a director or officer of the Company or as an agent of the Company. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise (as defined below)) and Indemnitee. Indemnitee specifically acknowledges that if Indemnitee is employed with the Company (or any of its subsidiaries or any Enterprise), such employment relationship is at will, and the Indemnitee may be discharged at any time for any reason, with or without cause, except as may be otherwise provided in any written employment contract between Indemnitee and the Company (or any of its subsidiaries or any Enterprise), other applicable formal severance policies duly adopted by the Board, or, with respect to service as a director or officer of the Company, by the Certificate of Incorporation, the Bylaws and the DGCL. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee has ceased to serve as a director, officer or agent of the Company or any of its subsidiaries as provided in Section 16 hereof.

2. Definitions: As used in this Agreement:

(a) References to “agent” shall mean any person who is or was a director, officer, or employee of the Company or a subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as a director, officer, employee, fiduciary or other official of any Enterprise at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company.

(b) A “Change in Control” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;

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

(iii) a change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. “Incumbent Directors” means members of the Board who either (A) at the beginning of such two-year period are members of the Board, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the members of the Board still in office who either were members of the Board at the beginning of such two-year period or whose election or nomination was previously so approved (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iv) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

(c) “Corporate Status” describes the status of a person who is or was a director, officer, employee or agent of the Company or of any subsidiary of the Company.

(d) “Disinterested Director” shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) “Enterprise” shall mean any corporation, limited liability company, partnership, joint venture, trust or other enterprise of which Indemnitee is or was serving at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company as an agent.

(f) “Expenses” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts and other professionals, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent and (ii) for purposes of Section 14(d) only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement, by litigation or otherwise.

(g) "Independent Counsel" shall mean a law firm, or a member of a law firm, that is experienced in matters of corporate and securities law and neither presently is, nor in the past three years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(h) The term "Proceeding" shall include any threatened, pending or completed action, suit, claim, counterclaim, cross claim, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative, legislative or investigative (formal or informal) nature, including any appeal therefrom, in which Indemnitee was, is or will be involved as a party, potential party, non-party witness or otherwise by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company and/or a subsidiary of the Company, by reason of any action taken by Indemnitee (or a failure to take action by Indemnitee) or of any action (or failure to act) on Indemnitee's part while acting pursuant to Indemnitee's Corporate Status, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification, reimbursement or advancement of Expenses can be provided under this Agreement.

(i) References to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company or a subsidiary of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

3. Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor, by reason of Indemnitee's Corporate Status. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf

in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding had no reasonable cause to believe that Indemnitee's conduct was unlawful. The parties hereto intend that this Agreement shall provide to the fullest extent permitted by law for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Certificate of Incorporation, the Bylaws, vote of the Company's stockholders or Disinterested Directors or applicable law.

4. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of Indemnitee's Corporate Status. Pursuant to this Section 4, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that the Court of Chancery of the State of Delaware (the "Delaware Court") or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with or related to each successfully resolved claim, issue or matter to the fullest extent permitted by law. For purposes of this Section 5 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

6. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness or otherwise asked to participate in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

7. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled._

8. Additional Indemnification.

(a) Notwithstanding any limitation in Sections 3, 4, or 5, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) by reason of Indemnitee's Corporate Status.

(b) For purposes of Section 8(a), the meaning of the phrase "to the fullest extent permitted by applicable law" shall include, but not be limited to:

(i) to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and

(ii) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers, directors, employees and agents.

9. Exclusions. Notwithstanding any other provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnification payment in connection with any claim involving Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for (i) an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law, (ii) any reimbursement of the Company by the Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by the Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), or Section 904 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act) or (iii) any reimbursement of the Company by Indemnitee of any compensation pursuant to any compensation recoupment or clawback policy adopted by the Board or the compensation committee of the Board, including but not limited to any such policy adopted to comply with stock exchange listing requirements implementing Section 10D of the Exchange Act; or

(c) except as provided in Section 14(d) of this Agreement, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

10. Advancement of Expenses. Notwithstanding any provision of this Agreement to the contrary (other than Section 14(d)), the Company shall advance, to the extent not prohibited by law, the Expenses incurred and paid by Indemnitee in connection with any Proceeding (or any part of any Proceeding) not initiated by Indemnitee or any Proceeding initiated by Indemnitee with the prior approval of the Board as provided in Section 9(c), and such advancement shall be made within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. The Company shall, in accordance with such request for advancement (but without duplication), either (i) pay such Expenses on behalf of the Indemnitee, or (ii) reimburse Indemnitee for such Expenses. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. In accordance with Section 14(d), advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that the Indemnitee undertakes to repay the amounts advanced (without interest) to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. No other form of undertaking shall be required other than the execution of this Agreement, except as may be expressly required by the DGCL. This Section 10 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 9.

11. Procedure for Notification and Defense of Claim.

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses hereunder as soon as reasonably practicable following the receipt by Indemnitee of written notice thereof. The written notification to the Company shall include a description of the nature of the Proceeding and the facts underlying the Proceeding. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such Proceeding. The omission by Indemnitee to notify the Company hereunder will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement except to the extent that such delay materially and adversely affects the Company's ability to participate in the defense of such Proceeding, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification and/or advancement of Expenses.

(b) The Company will be entitled to participate in the Proceeding at its own expense and, except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel chosen by the Company and reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense of any such Claim, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently directly incurred by Indemnitee in connection with Indemnitee's defense of such Claim other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ its own legal counsel in such Claim, but all Expenses related to such counsel incurred after notice from the Company of its assumption of the defense shall be at Indemnitee's own expense; <u>provided</u>, <u>however</u>, that if (i) Indemnitee's employment of its own legal counsel has been authorized by the Company, (ii) Indemnitee has reasonably determined that there may be a conflict of interest between Indemnitee and the Company in the defense of such Claim, (iii) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, (iv) after a Change in Control, Indemnitee's employment of its own counsel has been approved by the Independent Counsel, or (v) the Company shall not in fact have employed counsel to assume the defense of such Claim, then Indemnitee shall be entitled to retain its own separate counsel that is selected by Indemnitee and approved by the Company (which approval shall not be unreasonably delayed, conditioned or withheld) (but not more than one law firm plus, if applicable, local counsel in respect of any such Claim) and all Expenses related to such separate counsel shall be borne by the Company.

(c) The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any threatened or pending Proceeding pursuant to which the Indemnitee is entitled to indemnification and that is effected without the Company's prior written consent, which shall not be unreasonably withheld; provided, however, that if a Change in Control has occurred, the Company shall be liable for indemnification of the Indemnitee for amounts paid in settlement if an Independent Counsel has approved the settlement. The Company shall not settle any Proceeding pursuant to which the Indemnitee is entitled to indemnification in any manner that would impose any Expenses, claims, liabilities and/or damages on the Indemnitee without the Indemnitee's prior written consent.

12. <u>Procedure Upon Application for Indemnification</u>.

(a) Upon written request by Indemnitee for indemnification pursuant to Section 11(a), a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, or (D) if so directed by the Board, by the common stockholders of the Company by the affirmative vote of the holders of a majority in voting power of the Company's outstanding common stock, present in person or represented by proxy; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom. The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected as provided in this Section 12(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or the Delaware Court has determined that such objection is without merit. If, within twenty (20) days after the later of submission by Indemnitee of a written request for indemnification pursuant to Section 11(a) hereof and the final disposition of the Proceeding, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Delaware Court for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by such court or by such other person as such court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 12(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

13. <u>Presumptions and Effect of Certain Proceedings</u>.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 11(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 14(e) (which section allows determination regarding Indemnitee's entitlement to indemnification under this Agreement to be deferred until following the final disposition of the Proceeding), if the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the Indemnification Notice from Indemnitee therefor, the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; <u>provided</u>, <u>however</u>, that such sixty (60)-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith reasonably requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; provided, further, that the foregoing provisions of this Section 13(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 12(a) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of

Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Company, any subsidiary of the Company or any other Enterprise, including financial statements, or on information supplied to Indemnitee by the directors or officers of the Company, any subsidiary of the Company or any other Enterprise in the course of their duties, or on the advice of legal counsel for the Company, any subsidiary of the Company or any other Enterprise or on information or records given or reports made to the Company, any subsidiary of the Company or any other Enterprise by an independent certified public accountant or by an appraiser, financial advisor or other expert selected with reasonable care by or on behalf of the Company, any subsidiary of the Company or any other Enterprise, as applicable. The provisions of this Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any other director, officer, agent or employee of the Company or any subsidiary of the Company shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

14. Remedies of Indemnitee.

(a) Subject to Section 14(e), in the event that (i) a determination is made pursuant to Section 12 that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 10, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Sections 5, 6 or 7 or the second to last sentence of Section 12(a) within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Sections 3, 4 or 8 is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or (vi) in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, the Indemnitee the benefits provided or intended to be provided to the Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by the Delaware Court of Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 14(a). The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 14 shall be conducted in all respects as a *de novo* trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 12(a) that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. It is the intent of the Company that, to the fullest extent permitted by law, the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee hereunder. The Company shall, to the fullest extent permitted by law, indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor) advance, to the extent not prohibited by law, such Expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company if, in the case of indemnification, Indemnitee is wholly successful on the underlying claims; if Indemnitee is not wholly successful on the underlying claims, then such indemnification shall be only to the extent Indemnitee is successful on such underlying claims or otherwise as permitted by law, whichever is greater.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

15. <u>Non-Exclusivity; Survival of Rights; Insurance; Subrogation</u>.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Certificate of Incorporation, the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Company or any subsidiary of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim or of the commencement of a Proceeding, as the case may be, to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Proceeding, including the settlement of any such proceeding and payment of plaintiffs' attorneys' fees, in accordance with the terms of such policies.

(c) In the event of any payment made by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or for which advancement is provided hereunder) hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving an Enterprise as an agent shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of Expenses from such Enterprise.

16. Duration of Agreement; Successors and Assigns. This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director, officer, employee and/or agent of the Company or any subsidiary of the Company or (b) one (1) year after the final termination of any Proceeding then pending in respect of which

Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 14 of this Agreement relating thereto. The indemnification and advancement of expenses rights provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any subsidiary of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

17. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

18. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve or continue to serve as a director, officer, employee and/or agent of the Company and/or any subsidiaries of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director, officer, employee and/or agent of the Company and/or any subsidiaries of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of the Certificate of Incorporation, the Bylaws, any applicable directors' and officers' liability insurance policies and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the

provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

20. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed, or (d) sent by facsimile transmission, with receipt of oral confirmation that such transmission has been received:

(a) If to Indemnitee, as indicated on the signature page of this Agreement, or as Indemnitee shall otherwise provide to the Company.

(b) If to the Company, to:

PCTEL, Inc.
471 Brighton Drive
Bloomingdale, IL 60108
Attn: Shelley J. Bacastow, Senior Vice President, Chief Legal Officer and Company Secretary
Facsimile: (630) 233-8076

or to any other address as may have been furnished to Indemnitee by the Company.

21. Applicable Law and Consent to Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such State without giving effect to the principles of conflicts of laws.

22. Counterparts. This Agreement and any amendments may be executed in one or more counterparts, all of which shall be considered one and the same agreement. Any such counterpart, to the extent delivered by fax or .pdf, .tif, .gif, .jpg or similar attachment to email will be treated in all manner and respects as an original executed counterpart and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement as of the date first above written.

PCTEL, INC.

By:

Title:

471 Brighton DriveBloomingdale, IL 60108

Address:

AGREED TO AND ACCEPTED

INDEMNITEE:

(Signature)

(Printed Name)

(Address)

(Facsimile, if available)

Exhibit 31.1

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

I, David A. Neumann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCTEL, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

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

Exhibit 31.2

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

I, Kevin J. McGowan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PCTEL, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

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

Exhibit 32.1

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

In connection with the Quarterly Report of PCTEL, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

	By:	/s/ David A. Neumann
DATE: November 9, 2020		DAVID A. NEUMANN
		[Chief Executive Officer]
		(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of PCTEL, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

DATE: November 9, 2020

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