PC TEL INC
Form 10-Q
November 09, 2009

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

Form 10-Q

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

For the quarterly period ended September 30, 2009

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

(630) 372-6800

(Registrant s Telephone Number, Including Area Code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and on its corporate Web site, if any, every Interactive Date File required to be submitted and posted 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 and post such files). Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Title	Outstanding
Common Stock, par value $.001 per share	18,678,477 as of November 1, 2009

PCTEL, Inc.
Form 10-Q
For the Quarterly Period Ended September 30, 2009

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PART I FINANCIAL INFORMATION

Item 1: Financial Statements

PCTEL Inc.
Condensed Consolidated Balance Sheets
(in thousands except per share amounts)

	(unaudited) September 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 42,596	$ 44,766
Short-term investment securities	25,900	17,835
Accounts receivable, net of allowance for doubtful accounts of $141 and $121 at September 30, 2009 and December 31, 2008, respectively	11,525	14,047
Inventories, net	8,407	10,351
Deferred tax assets, net	1,148	1,148
Prepaid expenses and other assets	2,695	2,575
Total current assets	92,271	90,722
Property and equipment, net	12,132	12,825
Long-term investment securities	9,972	15,258
Goodwill		384
Other intangible assets, net	4,366	5,240
Deferred tax assets, net	9,730	10,151
Other noncurrent assets	899	926
TOTAL ASSETS	**$ 129,370**	**$ 135,506**
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 1,443	$ 2,478
Accrued liabilities	4,063	6,198
Total current liabilities	5,506	8,676
Long-term liabilities	1,692	1,512
Total liabilities	7,198	10,188
Stockholders equity:		
Common stock, $0.001 par value, 100,000,000 shares authorized, 18,657,839 and 18,236,236 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	18	18
Additional paid-in capital	138,553	137,930

Accumulated deficit		(16,550)		(12,639)
Accumulated other comprehensive income		151		9
Total stockholders equity		122,172		125,318
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$**	**129,370**	**$**	**135,506**

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

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PCTEL, Inc.
Condensed Consolidated Statements of Operations (unaudited)
(in thousands, except per share information)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CONTINUING OPERATIONS				
REVENUES	$ 13,709	$ 20,087	$ 41,216	$ 58,661
COST OF REVENUES	7,283	10,527	22,061	30,627
GROSS PROFIT	**6,426**	**9,560**	**19,155**	**28,034**
OPERATING EXPENSES:				
Research and development	2,673	2,591	8,010	7,387
Sales and marketing	1,845	2,543	5,841	8,180
General and administrative	2,169	2,619	7,245	8,372
Amortization of other intangible assets	553	552	1,660	1,544
Restructuring charges			494	364
Impairment of goodwill			1,485	
Loss on sale of product lines and related note receivable		882	454	882
Gain on sale of assets and related royalties		(200)	(400)	(600)
Total operating expenses	7,240	8,987	24,789	26,129
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	(814)	573	(5,634)	1,905
Other income, net	375	120	742	1,557
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS	(439)	693	(4,892)	3,462
Provision (benefit) for income taxes	316	(10,216)	(981)	(8,451)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**(755)**	**10,909**	**(3,911)**	**11,913**
DISCONTINUED OPERATIONS				
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX PROVISION		157		37,035
NET INCOME (LOSS)	**($755)**	**$ 11,066**	**($3,911)**	**$ 48,948**
Basic Earnings per Share:				
Income (Loss) from Continuing Operations	($0.04)	$ 0.60	($0.22)	$ 0.61
Income from Discontinued Operations	$ 0.00	$ 0.01	$ 0.00	$ 1.90
Net Income (Loss)	($0.04)	$ 0.61	($0.22)	$ 2.51

Diluted Earnings per Share:				
Income (Loss) from Continuing Operations	($0.04)	$ 0.58	($0.22)	$ 0.60
Income from Discontinued Operations	$ 0.00	$ 0.01	$ 0.00	$ 1.87
Net Income (Loss)	($0.04)	$ 0.59	($0.22)	$ 2.48
Weighted average shares Basic	17,559	18,164	17,573	19,525
Weighted average shares Diluted	17,559	18,709	17,573	19,761

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

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PCTEL, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2009	**2008**
Operating Activities:		
Net (loss) income	($3,911)	$ 48,948
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Income from discontinued operations		(37,035)
Depreciation and amortization	3,321	2,956
Impairment charge	1,485	882
Amortization of stock based compensation	2,670	3,469
Loss from investments		696
Gain on sale of assets and related royalties	(400)	(600)
Loss on disposal/sale of property and equipment	34	39
Restructuring costs	166	(1,239)
Loss on sale of product lines and related note receivable	454	
Payment of withholding tax on stock based compensation	(767)	(937)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,842	917
Inventories	2,238	(248)
Prepaid expenses and other assets	(456)	(314)
Accounts payable	(1,173)	467
Income taxes payable	(143)	(8)
Accrued liabilities	(2,402)	(2,053)
Deferred tax assets	421	2,291
Deferred revenue	(15)	(30)
Net cash provided by operating activities	4,364	18,201
Investing Activities:		
Capital expenditures	(948)	(1,956)
Proceeds from disposal of property and equipment		35
Purchase of investments	(21,290)	(12,739)
Redemptions/maturities of short-term investments	18,633	24,354
Proceeds on sale of assets and related royalties	400	600
Purchase of assets/businesses, net of cash acquired	(2,260)	(3,930)
Net cash (used in) provided by investing activities	(5,465)	6,364
Financing Activities:		
Proceeds from issuance of common stock	427	2,239
Payments for repurchase of common stock	(1,515)	(29,621)
Tax benefit from stock option exercises		1,979

Cash dividend		(10,294)
Repayments of short-term borrowings		(112)
Net cash used in financing activities	(1,088)	(35,809)
Cash flows from discontinued operations:		
Net cash used in operating activities		(105)
Net cash provided by investing activities		38,479
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(2,189)	27,130
Effect of exchange rate changes on cash	19	(81)
Cash and cash equivalents, beginning of year	44,766	26,632
Cash and Cash Equivalents, End of Period	$ 42,596	$ 53,681

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

PCTEL, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2009 (UNAUDITED)
(in thousands)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) 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, 2008.

The company has also filed the following amendments to restate the company s previously-issued financial statements for the period ended March 31, 2009, and the company s previously-issued financial statements for period ended June 30, 2009:

Amendment No. 1 on Form 10-Q/A, filed with the Securities and Exchange Commission (SEC) on November 4, 2009, to the company s quarterly report on Form 10-Q for the period ended March 31, 2009, originally filed on May 11, 2009.

Amendment No. 1 on Form 10-Q/A, filed with the SEC on November 4, 2009, to the company s quarterly report on Form 10-Q for the period ended June 30, 2009, originally filed on August 10, 2009.

These financial statements should be read in conjunction with the restated condensed consolidated financial statements and notes thereto for the period ended March 31, 2009 included on Form 10-Q/A and with the restated condensed consolidated financial statements and notes thereof for the period ended June 30, 2009 included on Form 10-Q/A.

Summary of Misstatement in the Quarter Ended March 31, 2009

The company acquired Wi-Sys Communications Inc. (Wi-Sys), a Canadian manufacturer of products for GPS, terrestrial and satellite communication systems, including programmable GPS receivers and high performance antennas, through a purchase of all of Wi-Sys common stock for $2.3 million in cash on January 5, 2009. When recording the initial Wi-Sys balance sheet at fair value under the acquisition method of accounting in the quarter ended March, 31, 2009, the company did not record a $223 deferred tax liability, with correspondent recording of additional goodwill, for the effect of the book over tax basis in the related intangible asset. The company evaluated at the time, in error, that it would treat the permanent difference as a reconciling item in its reconciliation of effective tax rate to statutory rate. During the same quarter, the company impaired all of its goodwill, resulting in goodwill impairment expense being understated by $223, equal to the amount of the unrecorded deferred tax liability. Additionally, the company discovered that it omitted the effect of compensation deduction limitations for U.S. income tax purposes under IRS Code Section 162(m) when calculating the tax provision. This resulted in income tax expense being understated by $127.

Summary of Misstatement in the Quarter Ended June 30, 2009

During the quarter ended June 30, 2009, the company entered into a plan of liquidation for the Wi-Sys legal entity as part of its consolidation of Wi-Sys operations into PCTEL in order to achieve operating cost synergies. Pursuant to that liquidation, the company incurred $275 of Canadian income taxes related to the transfer of assets from the Canadian entity to the company s U.S. entity. The company initially recorded those taxes as income tax expense in the quarter. Under accounting for income taxes incurred related to the transfer of assets between companies in a controlled group, the current Canadian taxes of $275, less the reversal of the deferred tax liability of $223 should be charged to prepaid taxes, with the balance amortized over the life of the related assets. Therefore income tax expense during the quarter was overstated by $275.

Summary of Misstatement in the Six Months Ended June 30, 2009

The year to date effect of the misstatements on the income statement is that goodwill impairment expense is understated by $223, income tax expense is overstated by $148, and net income is overstated by $75.

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Nature of Operations

PCTEL focuses on wireless broadband technology related to propagation and optimization. The company designs and develops innovative antennas that extend the reach of broadband and other wireless networks that simplify the implementation of those networks. The company provides highly specialized software-defined radios that facilitate the design and optimization of broadband wireless networks. The company supplies its products to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value added resellers (VARs) and other original equipment manufacturers (OEMs).

On January 5, 2009, the company acquired all of the outstanding share capital of Wi-Sys. During the second quarter 2009, the company exited the Canadian facility and fully integrated the Wi-Sys product lines into the company s antenna product operations in Bloomingdale, Illinois. During the nine months ended September 30, 2009, the company incurred a restructuring charge of $0.2 million for employee severance, lease termination costs, and disposition of assets.

On March 14, 2008, the company acquired the assets of Bluewave Antenna Systems, Ltd (Bluewave). The Bluewave product line augments the company s Land Mobile Radio (LMR) antenna product line.

On October 9, 2008, the company sold four of its antenna product families to Sigma Wireless Technology Ltd, a Scotland based company (SWTS). The four antenna product families represent the remaining antenna products from the company s acquisition of Sigma Wireless Technologies Limited (Sigma) in 2005. Sigma and SWTS are not related.

The company also had a reporting unit that licensed an intellectual property portfolio in the area of analog modem technology. As of June 30, 2009, the revenues and cash flows associated with this reporting unit were substantially complete. Based on the financial information for 2009 and for comparable periods, this reporting unit does not meet the quantitative threshold requirements of a reportable segment. As such, the results for licensing are aggregated with the rest of the company.

On December 10, 2007, the company entered into an Asset Purchase Agreement with Smith Micro Software, Inc. (Smith Micro), to sell substantially all the assets of its Mobility Solutions Group (MSG). On January 4, 2008, the company completed the sale of MSG. As required by GAAP, the condensed consolidated financial statements separately reflect the MSG operations as discontinued operations for 2008.

Basis of Consolidation and Foreign Currency Translation

The condensed consolidated balance sheet as of September 30, 2009 and the condensed consolidated statements of operations and cash flows for the three months and nine months ended September 30, 2009 and 2008 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 interim condensed consolidated financial statements are derived from the audited financial statements as of December 31, 2008.

The condensed consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions have been eliminated. The unaudited interim condensed consolidated financial statements of the company have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The significant accounting policies followed by the company are set forth within the company s Annual Report on Form 10-K for the year ended December 31, 2008. There were no changes in the company s significant accounting policies during the three months and nine months ended September 30, 2009. In addition, the company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2008 Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the company s audited consolidated financial statements and notes thereto included in the 2008 Form 10-K.

The company is exposed to foreign currency fluctuations due to our foreign operations and international sales. The functional currency for the company s foreign 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 income, a separate component of shareholders equity. Gains and losses resulting from other transactions originally in foreign currencies and then translated into U.S. dollars are included in net income (loss). Net foreign exchange gains (losses) resulting from foreign currency transactions included in other income, net were $0 and ($34) for the three months and nine months ended September 30, 2009, respectively. Net foreign exchange gains (losses) resulting from foreign currency transactions included in other income, net were ($134) and $84 for the three months and nine months ended September 30, 2008, respectively

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2. Recent Accounting Pronouncements

On September 30, 2009, the company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the condensed consolidated financial statements.

In August 2009, the FASB issued changes to fair value accounting for liabilities. These changes clarify existing guidance that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value using either a valuation technique that uses a quoted price of either a similar liability or a quoted price of an identical or similar liability when traded as an asset, or another valuation technique that is consistent with the principles of fair value measurements, such as an income approach (e.g., present value technique). This guidance also states that both a quoted price in an active market for the identical liability and a quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The adoption of these changes did not have a material effect on the condensed consolidated financial statements.

In June 2009, the FASB issued changes related to accounting for transfers of financial assets. The changes will require entities to provide more information about sales of securitized financial assets and similar transactions, particularly if the seller retains risk related to the assets. The statement eliminates the concept of a qualifying special-purpose entity, changes the requirements for the de-recognition of financial assets, and calls upon sellers of the assets to make additional disclosures about them. These changes are effective for fiscal years beginning after November 15, 2009. The company does not expect the adoption of these changes to have a material impact on the condensed consolidated financial statements.

In June 2009, the FASB issued changes related to variable interest entities. These changes require an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as one with the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the variable interest. These changes will be effective as of the beginning of the annual reporting period commencing after November 15, 2009 and will be adopted by the company in the first quarter of 2010. The company does not expect the adoption of these changes to have a material impact on the condensed consolidated financial statements

Effective June 30 2009, the company adopted Accounting Standards Codification (ASC) 855-10, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 requires companies to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date. The adoption of ASC 855-10 did not have a material effect on the condensed consolidated financial statements. In accordance with ASC 855-10, the company reviewed for subsequent events through November 9, 2009.

Effective June 30 2009, the company adopted ASC 825-10, which requires an entity to provide disclosures about fair value of financial instruments in interim financial information. Under this ASC, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, the company shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position. The adoption of ASC 825-10 did not have a material effect on the condensed consolidated financial statements.

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In January 2009, the company adopted ASC 350-30, which requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension. The adoption of ASC 350-30 did not have a material impact on the condensed consolidated financial statements.

In January 2009, the company adopted ASC 810-10, which describes a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. ASC 810-10 establishes accounting and reporting standards that require, among other items: (a) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; (b) the amount of consolidated net income (loss) attributable to the parent and the noncontrolling interests be clearly identified and presented on the face of the consolidated statement of income; and (c) entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The adoption of ASC 810-10 did not have a material impact on the condensed consolidated financial statements.

3. Balance Sheet Data

Cash and Cash equivalents

At September 30, 2009, cash and cash equivalents included bank balances and investments with original maturities less than 90 days. At September 30, 2009 and December 31, 2008, the company s cash equivalents were invested in highly liquid AAA 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 money market funds to those invested 100% in either short term U.S. Government Agency securities, or bank repurchase agreements collateralized by the 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). Approximately $24.2 million and $38.9 million of the company s cash and cash equivalents were insured through the Treasury Guarantee Program at September 30, 2009 and at December 31, 2008, respectively.

The company had cash equivalents in foreign bank accounts of $1.9 million and $1.8 million at September 30, 2009 and December 31, 2008, respectively.

Investments

At September 30, 2009 and December 31, 2008, the company s short-term and long-term investments consisted of pre-refunded municipal bonds, U.S. Government Agency bonds, AA rated corporate bonds, and shares in a Bank of America affiliated fund, the Columbia Strategic Cash Portfolio (CSCP),

<u>CSCP</u>

At September 30, 2009, the company s shares of the CSCP had a recorded value of approximately $1.9 million. The CSCP is an enhanced cash money market fund that has been negatively impacted by the turmoil in the credit markets. This investment is classified as available for sale and is carried at fair value. In December 2007, the CSCP was closed to new subscriptions and redemptions, and changed its method of valuing shares from the amortized cost method to the market value of the underlying securities of the fund. The CSCP manager is in the process of liquidating the fund and returning cash to the shareholders. During the nine months ended September 30, 2009, the company received share redemption payments of approximately $7.0 million, and recorded $0.3 million in realized gains from these redemptions. At September 30, 2009, the company recorded in comprehensive income unrealized gains of $0.1 million, in net asset value from the CSCP marking the underlying assets of the fund to market. Starting in December 2007 and through September 30, 2009, the company has recorded cumulative losses on its CSCP investment of $2.5 million. At September 30, 2009, approximately $2.2 million of these losses had been realized through share liquidation payments and approximately $0.3 million remains unrealized. Future impairment charges may result until the fund is fully liquidated, depending on market conditions.

The CSCP fund manager provides a report of the CSCP fund share net asset value to shareholders on a daily basis, a report of the CSCP underlying securities holdings on a monthly basis, and a report of the liquidation status on a monthly basis. The CSCP fund shares are not tradable. In order to determine the fund s net asset value, the CSCP fund manager utilizes a combination of unadjusted quoted prices in active markets for identical assets (Level 1 inputs), unadjusted quoted prices for identical or similar assets in both active and inactive markets (Level 2 inputs), and unobservable inputs for distressed assets (Level 3 inputs). They do not disclose the amount of net asset value attributable to each level. The net asset value per fund share provided by the CSCP fund manager is used by management as the basis for its

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determination of fair value of the CSCP fund shares. The company classifies that input in its entirety at the lowest level of the inputs used by the CSCP fund manager (Level 3). Based on the total assets in the fund, the underlying assets of the $1.9 million investment in the fund at September 30, 2009 consist of approximately $0.4 million of cash and accrued interest and $1.5 million of asset backed securities primarily in the areas of residential mortgages, credit card debt, and auto loans. At September 30, 2009, approximately 80% of the CSCP holdings were in cash, accrued interest and securities with an S&P rating of A or better. Twenty percent of the fund s holdings are comprised of securities with S&P ratings of lower than A or were not rated.

Based on the continued illiquidity of the commercial paper market, management believes that the most accurate estimate of the CSCP liquidation schedule is found in the weighted average lives of the CSCP fund s underlying securities, adjusted for an allowance for the historical accuracy of the weighted average lives. Based on that methodology, the company classified approximately $1.5 million of the CSCP investment as short-term investment securities and approximately $0.4 million as long-term investment securities in the condensed consolidated balance sheets at September 30, 2009. The company is unable to determine when the long-term investment portion will be liquidated.

Bonds

The company has invested $32.9 million in pre-refunded municipal bonds and U.S. Government Agency bonds and $1.5 million of AAA rated corporate bonds. The income and principal from the pre-refunded bonds is secured by an irrevocable trust of U.S Treasury securities. The bonds classified as short-term investments have original maturities greater than 90 days and mature in less than one year. The company classified $9.6 million as long-term investment securities because the original maturities were greater than one year. Of this total, $4.5 million mature in 2010 and $5.1 million mature in 2011. The bonds are classified as held to maturity and are carried at amortized cost. At September 30, 2009, approximately 24% of the company s bonds were protected by bond default insurance.

Cash equivalents and investments consist of the following:

	September 30, 2009	December 31, 2008
Cash and cash equivalents	$ 42,596	$ 44,766
Bonds:		
Short-term	24,429	13,600
Long-term	9,535	10,930
Available for sale securities:		
Short-term	1,471	4,235
Long-term	437	4,328
Total	$ 78,468	$ 77,859

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The financial assets are measured for fair value on a recurring basis. The fair value measurements of the financial assets at September 30, 2009 were as follows:

	Quoted at Prices in Active Markets for Identical Assets (Level 1)	Signficant Other Unobservable Inputs (Level 3)	Total
Cash equivalents	$ 40,696	$	$ 40,696
Bonds:			
Short-term	24,504		24,504
Long-term	9,688		9,688
Available for sale securities:			
Short-term		1,471	1,471
Long-term		437	437
Total	$ 74,888	$ 1,908	$ 76,796

The bonds and cash equivalents are carried at amortized cost on the company s condensed consolidated balance sheets. The activity related to the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows for the nine months ended September 30, 2009:

	Short-term investment securities	Long-term investment securities	Total investment securities
Balance at December 31, 2008	$ 4,235	$ 4,328	$ 8,563
Redemptions	(7,044)		(7,044)
Unrealized gain on investments	122		122
Realized gain on investments	267		267
Reclassifications	3,891	(3,891)	
Balance at September 30, 2009	$ 1,471	$ 437	$ 1,908

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at invoiced amount and the standard terms are net 30 days. The company extends credit to its customers based on an evaluation of a company s financial condition and collateral is generally not required. The company maintains an allowance for doubtful accounts for estimated uncollectible accounts receivable. The allowance is based on the company s assessment of known delinquent accounts, historical experience, and other currently available evidence of the collectability and the aging of accounts receivable. The company s allowance for doubtful accounts was $0.1 million at September 30, 2009 and December 31, 2008, respectively. The provision for doubtful accounts is included in sales and marketing expense in the condensed consolidated statements of operations. Unbilled receivables were $0.2 million and $0.1 million at September 30, 2009 and December 31, 2008, respectively.

Inventories

Inventories are stated at the lower of cost or market and include material, labor and overhead costs using the FIFO method of costing. Inventories as of September 30, 2009 and December 31, 2008 were composed of raw materials, sub-assemblies, finished goods and work-in-process. The company had consigned inventory of $0.4 million and $0.9 million at September 30, 2009 and December 31, 2008, respectively. The company records allowances to reduce the value of inventory to the lower of cost or market, including allowances for excess and obsolete inventory. As of September 30, 2009 and December 31, 2008, the allowance for inventory losses was $1.3 million and $1.0 million, respectively.

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Inventories consisted of the following at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Raw materials	$ 6,294	$ 7,650
Work in process	400	377
Finished goods	1,713	2,324
Inventories, net	$ 8,407	$ 10,351

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 computers over three years, office equipment and manufacturing equipment 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. Gains and losses on the disposal of property and equipment are included in operating expenses in the condensed consolidated statements of operations. Maintenance and repairs are expensed as incurred.

Property and equipment consists of the following at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Building	$ 6,207	$ 6,193
Land	1,770	1,770
Computers and office equipment	3,895	3,545
Manufacturing and test equipment	7,048	6,573
Furniture and fixtures	1,116	1,176
Leasehold improvements	166	120
Motor vehicles	27	27
Total property and equipment	20,229	19,404
Less: Accumulated depreciation and amortization	(8,097)	(6,579)
Property and equipment, net	$ 12,132	$ 12,825

Goodwill

The company s goodwill balance was $0 and $0.4 million on the condensed consolidated balance sheets at September 30, 2009 and December 31, 2008, respectively. In January 2009, the company recorded goodwill of $1.1 million related to the acquisition of Wi-Sys. In March 2009, the company recorded goodwill impairment of $1.5 million because of the company s low market capitalization. The impairment represented the full amount of the goodwill from the Wi-Sys acquisition and $0.4 million remaining from the company s licensing unit.

The company tests goodwill for impairment on an annual basis. The company performs the annual impairment test of goodwill at the end of the first month of the fiscal fourth quarter (October 31st), or at an interim date if an event occurs or if circumstances change that would more likely than not reduce the fair value of a segment below its carrying value. At March 31, 2009, we tested our goodwill for impairment due to the company s market capitalization being below its carrying value. The company considered this market capitalization deficit as a triggering event for purposes of analyzing goodwill for impairment.

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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 eight years. The summary of other intangible assets, net as of September 30, 2009 and December 31, 2008 are as follows:

	September 30, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer contracts and relationships	$ 9,580	$ 6,221	$ 3,359	$ 8,850	$ 5,048	$ 3,802
Patents and technology	6,027	5,621	406	5,990	5,338	652
Trademarks and trade names	2,278	1,677	601	2,260	1,474	786
Other, net	1,508	1,508		1,508	1,508	
	$ 19,393	$ 15,027	$ 4,366	$ 18,608	$ 13,368	$ 5,240

The decrease in intangible assets at September 30, 2009 compared to December 31, 2008 reflects the addition of $0.8 million for the acquisition of Wi-Sys in January 2009 minus amortization of $1.7 million for the nine months ended September 30, 2009. Based on the triggering event related to the company s market capitalization in the first quarter 2009, the company reevaluated the carrying value of the intangible assets. The company concluded that there was no impairment of other intangible assets in relation to the test at March 31, 2009. There was no triggering event in the second or third quarter 2009. Based on the company s review of intangible assets, there was no impairment of other intangible assets at September 30, 2009.

Liabilities

Accrued liabilities consist of the following at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
Inventory receipts	$ 953	$ 2,667
Paid time off	732	741
Royalties	624	
Payroll, bonuses, and other employee benefits	513	1,252
Taxes and fees	402	605
Warranties	189	193
Professional fees	149	230
Prepaid accounts receivable	102	124
Employee stock purchase plan	88	193
Restructuring		65
Other	311	128
Total	$ 4,063	$ 6,198

Long-term liabilities consist of the following:

	September 30, 2009	December 31, 2008
Executive deferred compensation plan	$ 875	$ 658
Income tax liabilities	642	642
Other long-term liabilities	175	212
	$ 1,692	$ 1,512

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4. Discontinued Operations

Disposal of Mobility Solutions Group

On January 4, 2008, the company completed the sale of MSG to Smith Micro in accordance with an Asset Purchase Agreement entered into between the two companies and publicly announced on December 10, 2007. Under the terms of the Asset Purchase Agreement, Smith Micro purchased substantially all of the assets of the MSG for total consideration of $59.7 million in cash. In the transaction, the company retained the accounts receivable, non customer-related accrued expenses and accounts payable of the division. Substantially all of the employees of MSG continued as employees of Smith Micro in connection with the completion of the acquisition. The results of operations of MSG have been classified as discontinued operations for the three months and nine months ended September 30, 2008. The company recognized a gain on sale before tax of $60.3 million in January 2008. There was no activity related to discontinued operations during the three months and nine months ended September 30, 2009.

Summary results of operations for the discontinued operations included in the condensed consolidated statement of operations for the three months and nine months ended September 30, 2008, were as follows:

	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
Revenues	$		$	122
Operating costs and expenses				(400)
Restructuring expenses		(5)		(19)
Gain on disposal				60,336
Income (loss) from discontinued operations, before taxes		(5)		60,039
Provision (benefit) for income tax		(162)		23,004
Income from discontinued operations, net of tax	$	157	$	37,035
Income from discontinued operations per common share:				
Basic	$	0.01	$	1.90
Diluted	$	0.01	$	1.87
Shares used in computing basic earnings per share		18,164		19,525
Shares used in computing diluted earnings per share		18,709		19,761

5. Acquisitions and Dispositions

Business combinations are accounted for using the acquisition method (formerly called the purchase method). In general the acquisition method requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree. Neither the direct costs incurred to effect a business combination nor the costs the acquirer expects to incur under a plan to restructure an acquired business may be included as part of the business combination accounting. As a result, those costs are charged to expense when incurred, except for debt or equity issuance costs, which are accounted for in accordance with other generally accepted accounting principles.

The new measurement requirements also change the accounting for contingent consideration, in process research and development, and restructuring costs. In addition changes in uncertain tax positions or valuation allowances for deferred tax assets acquired in a business combination are recognized as adjustments to income tax expense or contributed capital, as appropriate, even if the deferred tax asset or tax position was initially acquired.

Acquisition of Wi-Sys

On January 5, 2009, the company acquired all of the outstanding share capital of Wi-Sys pursuant to a Share Purchase Agreement dated January 5, 2009 among PCTEL, Gyles Panther and Linda Panther, the holders of the outstanding share capital of Wi-Sys. The total consideration for Wi-Sys was $2.1 million paid at the close of the transaction and $0.2 million additional due to the shareholders based on the final balance sheet at December 31, 2008. The $0.2 million additional consideration was paid in cash in July 2009. The cash consideration paid in connection with the acquisition was provided from the company s existing cash. The company incurred acquisition costs of approximately $0.1 million related to Wi-Sys.

Wi-Sys manufactured products for GPS, terrestrial and satellite communication systems, including programmable GPS receivers and high performance antennas in Ottawa, Canada. The Wi-Sys antenna product line augments the company s GPS antenna product line. Wi-Sys revenues for the year ended December 31, 2008 were approximately $2.2 million. The revenues and expenses for Wi-Sys are included in the company s financial results for the three months and nine months ended September 30, 2009.

The purchase price of $2.3 million for the assets of Wi-Sys was allocated based on fair value: $0.8 million to tangible assets and $0.4 million to liabilities assumed, $0.7 million to customer relationships, and $0.1 million to core technology and trade names. The $1.1 million excess of the purchase price over the fair value of the net tangible and intangible assets was allocated to goodwill. The goodwill is not amortizable for book purposes or deductible for tax purposes. The intangible assets have a weighted average amortization period of 5.5 years. The company estimated the fair value (and remaining useful lives) of the assets and liabilities.

The following is the allocation of the purchase price for Wi-sys:

Current assets:	
Cash	$ 59
Accounts receivable	319
Inventory	294
Prepaid expenses and other assets	90
Total current assets	762
Fixed assets, net	69
Intangible Assets:	
Core technology	37
Customer relationships	730
Trade name	18
Goodwill	1,101
Total intangible assets	1,886
Total Assets	$ 2,717
Current liabilities:	
Accounts payable	$ 139
Accrued liabilities	36
Total current liabilities	175
Deferred tax liabilities	223

Total Liabilities	$ 398
Net assets acquired	$ 2,319

In March 2009, the company recorded goodwill impairment of $1.5 million. The impairment charge included the $1.1 million recorded for the Wi-Sys acquisition. See the goodwill section in Note 3 for further discussion of the goodwill impairment.

In the second quarter 2009, the company closed the Ottawa, Canada location and integrated the operations in the company s Bloomingdale, Illinois location. None of the Wi-Sys employees were retained by the company. The company incurred expenses related to employee severance, lease termination, and other shut down costs associated with the Wi-Sys restructuring. See note 9 related to Restructuring.

Acquisition of Bluewave

On March 14, 2008, the company entered into and closed an Asset Purchase Agreement (the Bluewave APA) with Bluewave, a privately owned Canadian company. Under terms of the Bluewave APA, the company purchased, on a debt free basis, all of the intellectual property,

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selected manufacturing fixed assets, and all customer relationships related to Bluewave s antenna product lines. The total consideration was $3.9 million in cash. The only liability the company assumed was for product warranty, which has been historically immaterial. The Bluewave antenna product line augments the company s LMR antenna product line. In 2008, the revenues and expenses for Bluewave are included in the company s financial results from the date of the acquisition through September 30, 2008.

The purchase price of $3.9 million for selected assets of Bluewave was allocated $3.3 million to intangible assets and $0.1 million to tangible assets. The $0.5 million excess of the purchase price over the fair value of the net tangible and intangible assets was allocated to goodwill. As a result of the company s annual impairment test of goodwill in the fourth quarter 2008, this goodwill was written off at December 31, 2008. The intangible assets have a weighted average amortization period of 6 years. The company estimated the fair value (and remaining useful lives) of the assets acquired.

The following is the allocation of the purchase price for Bluewave:

Fixed Assets:	
Computer software	$ 46
Tooling	60
Total fixed assets	$ 106
Intangible Assets:	
Core technology	$ 290
Customer relationships	2,850
Trade name	160
Backlog	8
Goodwill	486
Total intangibles assets	$ 3,794
Total assets acquired	$ 3,900

Sale of Product Lines

On August 14, 2008, the company entered into an asset purchase agreement for the sale of certain antenna products and related assets to SWTS. SWTS purchased the intellectual property, dedicated inventory, and certain fixed assets related to four of our antenna product families for $0.7 million, payable in installments at close and over a period of 18 months. The four product families represent the last remaining products acquired by us through our acquisition of Sigma in July 2005. SWTS and Sigma are unrelated. On August 14, 2008 SWTS was also appointed the company s manufacturer s representative (rep) in the European Union for the company s remaining antenna products. The sale transaction closed on October 9, 2008.

SWTS was formed at the effective date of this sale to specifically house the operations of the four antenna lines and the sales activities related to the representation of the company s remaining antenna products in Europe. SWTS was capitalized with equity of $0.1 million and the company s promissory note of $0.6 million. The company concluded that SWTS is a variable interest entity because of the company s promissory note and because total equity investment of SWTS at risk is insufficient to finance the activities of SWTS without additional subordinated financial support. Per the company s analysis, the company concluded that it is not the primary beneficiary of SWTS because the risks and other incidents of ownership were in fact transferred to the buyer. The shareholders of SWTS maintain all voting rights and decision making authority over SWTS activities. The company s analysis included significant judgment related to projections of revenues, income, and cash flows of SWTS. Because the company is not the primary beneficiary of SWTS, the company does not consolidate the results of SWTS in its financial statements.

In the year ended December 31, 2008, the company recorded a $0.9 million loss on sale of product lines, separately within operating expenses in the consolidated statements of operations. The net loss included the book value of the assets sold to SWTS, impairment charges and non-contingent incentive payments due the new employees of SWTS, net of the proceeds due to the company. The company sold inventory with a net book value of $0.8 million and wrote off intangible assets including goodwill of $0.5 million. The intangible asset write-off was the net book value and the goodwill write-off was a pro-rata portion of goodwill. The company paid incentive payments of $0.1 million and calculated $0.5 million in proceeds based on the principal value of the installment payments excluding imputed interest.

The net receivable balance from SWTS was $0 and $0.5 million in the condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008, respectively. At June 30, 2009, the company reserved for the $0.5 million receivable balance from SWTS due to

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uncertainty of collection. The reserve was recorded as a loss on sale of product lines and related note receivable in the condensed consolidated statements of operations. As of September 30, 2009, the rep relationship constitutes the company s continuing involvement with SWTS. SWTS sells the company s antennas to the same customer base that were currently sold to and attempts to expand that customer base on its own. SWTS also manufactures and sells the four antenna lines purchased from the company. At September 30, 2009, there is no exposure to loss from SWTS.

6. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Basic Earnings Per Share computation:				
Numerator:				
Net income (loss)	($755)	$ 11,066	($3,911)	$ 48,948
Denominator:				
Common shares outstanding	17,559	18,164	17,573	19,525
Basic income (loss) per share	($0.04)	$ 0.61	($0.22)	$ 2.51
Diluted Earnings Per Share computation:				
Numerator:				
Net income (loss)	($755)	$ 11,066	($3,911)	$ 48,948
Denominator:				
Common shares outstanding	17,559	18,164	17,573	19,525
Restricted shares subject to vesting	*	339	*	141
Employee common stock option grants	*	206	*	95
Total shares	17,559	18,709	17,573	19,761
Diluted income (loss) per share	($0.04)	$ 0.59	($0.22)	$ 2.48

* These amounts have been excluded since the effect is anti-dilutive. The weighted average common stock option grants and Restricted Shares excluded from the calculations of diluted net loss

per share were 279,000 and 274,000 for the three months and nine months ended September 30, 2009, respectively.

7. Stock-Based Compensation

Total stock compensation expense for the three months ended September 30, 2009 was $0.7 million in the condensed consolidated statement of operations, which included $0.7 million of restricted stock amortization and $0.1 million for stock option and stock purchase plan expenses offsetting $0.1 million expense reversal for stock bonuses. Total stock compensation expense for the nine months ended September 30, 2009 was $2.7 million in the condensed consolidated statement of operations, which included $2.4 million of restricted stock amortization and $0.3 million for stock option expense and stock purchase plan expenses.

Total stock compensation expense for the three months ended September 30, 2008 was $0.9 million for continuing operations in the condensed consolidated statement of operations, which included $0.8 million of restricted stock amortization and $0.1 million for stock option and employee stock purchase plan expenses. Total stock compensation expense for the nine months ended September 30, 2008 was $3.5 million for continuing operations in the condensed consolidated statement of operations, which included $2.4 million of restricted stock amortization, $0.6 million for stock bonuses, and $0.5 million for stock option and stock purchase plan expenses. The company also recorded stock compensation of $0.2 million related to discontinued operations in the nine months ended September 30, 2008.

Restricted Stock Serviced Based

The company grants restricted shares as employee incentives as permitted under the company s 1997 Stock Plan, as amended and restated (1997 Stock Plan). In connection with the grant of restricted stock to employees, the company records deferred stock compensation representing the fair value of the common stock on the date the restricted stock is granted. Such amount is presented as a reduction of

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stockholders equity and is amortized ratably over the vesting period of the applicable shares. These grants vest over various periods, but typically vest over four years. For the three months ended September 30, 2009, the company issued 3,000 shares of restricted stock with a fair value of $17 and recorded cancellations of 14,305 shares with grant date fair value of $74. For the nine months ended September 30, 2009, the company issued 580,350 shares of restricted stock with a fair value of $2.4 million and recorded cancellations of 35,255 shares with grant date fair value of $0.3 million.

For the three months ended September 30, 2008, the company issued 2,200 shares of restricted stock with a grant date fair value of $20 and recorded cancellations of 9,675 shares with grant date fair value of $77. For the nine months ended September 30, 2008, the company issued 316,482 shares of restricted stock with a fair value of $2.2 million and recorded cancellations of 215,288 shares with grant date fair value of $2.0 million.

For the three months and nine months ended September 30, 2009, 10,675 and 235,149 restricted shares vested with a grant date fair value of $116 and $2.1 million, respectively. For the three months and nine months ended September 30, 2008, 65,250 and 317,845 restricted shares vested with a grant date fair value of $740 and $3.1 million, respectively.

At September 30, 2009, total unrecognized compensation expense related to restricted stock was approximately $6.6 million, net of forfeitures to be recognized through 2013 over a weighted average period of 1.7 years.

A summary of the company s service-based restricted stock activity follows for the nine months ended September 30, 2009:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008	853,307	$ 8.29
Shares awarded	580,350	4.17
Shares vested	(235,149)	8.79
Shares cancelled	(35,255)	7.20
Balance at September 30, 2009	1,163,253	$ 6.17

The intrinsic value of vested service-based restricted stock was as follows for the three months and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Intrinsic value service based restricted shares	$69	$678	$1,570	$2,277

Stock Options

The company may grant stock options to purchase the company s 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 options contain gradual vesting provisions, whereby 25% vest one year from the date of grant and thereafter in monthly increments over the remaining three years. The Board of Director options vest on the first anniversary of the grant year. Stock options may be exercised at any time within ten years of the date of grant or within ninety days of termination of employment, or such shorter time as may be provided in the related stock option agreement.

Starting in 2005, only new employees or directors received stock options for incentive purposes. Presently, new employees and directors receive only service-based restricted awards for incentive purposes. As such, the company expects that future stock option grants will be minimal.

The company did not issue stock options and there were no stock option exercises during the nine months ended September 30, 2009. During the three months and nine months ended September 30, 2009, respectively, 51,347 and 82,466 options were either forfeited or expired.

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The company issued 1,800 and 127,500 options during the three and nine months ended September 30, 2008, respectively. The company received $3.2 million in proceeds from the exercise of 437,009 options during the three months ended September 30, 2008 and the company received $3.8 million in proceeds from the exercise of 510,573 options during the nine months ended September 30, 2008.

At September 30, 2009, total unrecognized compensation expense related to stock options was approximately $85, net of forfeitures to be recognized through 2012 over a weighted average period of 1.0 year.

The intrinsic value of stock options exercised was as follows for the three months and nine months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Intrinsic value stock options	$0	$1,319	$0	$1,378

The range of exercise prices for options outstanding and exercisable at September 30, 2009 was $6.16 to $59.00. The following table summarizes information about stock options outstanding under all stock plans at September 30, 2009:

		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
$ 6.16	$ 7.30	237,665	5.44	$ 6.96	213,728	$ 7.02
7.40	7.93	245,104	4.19	7.68	239,777	7.69
7.95	8.62	239,858	4.10	8.24	231,564	8.23
8.63	9.16	348,127	5.83	9.03	317,471	9.02
9.19	10.25	247,750	5.87	9.74	210,621	9.75
10.46	10.70	256,206	4.54	10.68	254,931	10.68
10.72	11.60	326,970	4.36	11.28	320,408	11.28
11.65	11.84	335,600	4.48	11.78	335,600	11.78
12.16	13.30	33,400	3.88	12.82	33,400	12.82
59.00	59.00	7,500	0.34	59.00	7,500	59.00
$ 6.16	$ 59.00	2,278,180	4.83	$ 9.79	2,165,000	$ 9.85

The intrinsic value and contractual life of the options outstanding and exercisable at September 30, 2009 were as follows:

	Weighted Average Contractual Life	Intrinsic Value
Options Outstanding	4.83	$ 1
Options Exercisable	4.69	$ 0

The intrinsic value is based on the share price of $6.25 at September 30, 2009.

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A summary of the company s stock option activity and related information follows for the nine months ended September 30, 2009:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2008	2,360,646	$ 9.80
Granted		
Exercised		
Expired	(73,333)	9.92
Forfeited	(9,133)	9.74
Outstanding at September 30, 2009	2,278,180	$ 9.79
Exercisable at September 30, 2009	2,165,000	$ 9.85

The fair value of each unvested option was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions during the nine months ended September 30:

	September 30, 2009	September 30, 2008
Weighted average fair value of options granted		$ 1.97
Dividend yield		None
Risk-free interest rate		2.7%
Expected volatility		40%
Expected life (in years)		2.4

There were no stock options granted during the nine months ended September 30, 2009.

Performance Shares

The company grants performance based restricted stock rights to certain executive officers. The performance shares vest upon achievement of defined performance goals such as revenue and earnings. The performance based stock rights are amortized based on the estimated achievement of the performance goals.

During the nine months ended September 30, 2009, the company did not issue any performance based restricted stock rights and did not record any cancellations of performance shares. In the first quarter 2009, 10,342 performance shares vested with a grant date value of $82. In the first quarter 2008, the company issued 25,000 performance shares with a fair value of $169 and 5,330 performance shares vested with a grant date fair value of $56. No performance shares vested in the three months ended September 30, 2009 or in the three months ended September 30, 2008.

The intrinsic value of vested performance shares was as follows for the three months and six months ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Intrinsic value performance shares	$0	$0	$50	$33

The following summarizes the performance share activity during the nine months ended September 30, 2009:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008	96,344	$ 9.47
Shares awarded		
Shares vested	(10,342)	7.97
Shares cancelled		
Balance at September 30, 2009	86,002	$ 9.65

Restricted Stock Units

The company grants restricted stock units as employee incentives as permitted under the company s 1997 Stock Plan. Employee restricted stock units are time-based awards and are amortized over the vesting period. At the vesting date, these units are converted to shares of common stock.

No time-based restricted stock units were issued in the three months ended September 30, 2009. During the nine months ended September 30, 2009, the company granted 26,350 time-based restricted stock units with fair value of $179. During the three and nine months ended September 30, 2009, 12,500 restricted stock units vested with a grant date fair value of $87, and 12,500 restricted stock units were cancelled with a grant date fair value of $87.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Intrinsic value restricted stock units	$67	$0	$67	$0

The following summarizes the restricted stock unit activity during the nine months ended September 30, 2009:

	Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008		
Units awarded	26,350	6.79
Units vested	(12,500)	6.93
Units cancelled	(12,500)	6.93
Balance at September 30, 2009	1,350	$ 4.10

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (Purchase Plan) 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 six months. The company received proceeds of $0.2 million from the issuance of 42,350 shares under the Purchase Plan in February 2009 and received proceeds of $0.2 million from the issuance of 36,834 shares under the Purchase Plan in February 2008. The company received proceeds of $0.2 million from the issuance of 51,551 shares under the Purchase Plan in August 2009 and received proceeds of $0.3 million from the issuance of 32,568 shares under the Purchase Plan in August 2008.

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

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The key assumptions used in the valuation model during the nine months ended September 30:

	September 30, 2009	September 30, 2008
Dividend yield	None	None
Risk-free interest rate	0.6%	3.0%
Expected volatility	47%	40%
Expected life (in years)	0.5	0.5

The company uses a dividend yield of None in the valuation model for shares related to the Purchase Plan. The company has paid one cash dividend in its history which was paid in May 2008. This special dividend was a partial distribution of the proceeds received from the sale of MSG. The company does not anticipate the payment of regular dividends in the future.

Short Term Incentive Plan

Bonuses related to the company s Short Term Incentive Plan are paid in the company s common stock to executives and in cash to non-executives. The shares earned under the plan are issued in the first quarter following the end of the fiscal year. In February 2009, the company issued 90,173 shares, net of shares withheld for payment of withholding tax, under the 2008 Short Term Incentive Plan. In February 2008, the company issued 82,001 shares, net of shares withheld for payment of withholding tax, under the 2007 Short Term Incentive plan.

Board of Director Equity Awards

Beginning in 2009, the Board of Directors elected to receive their annual equity award in the form of shares of the company s stock or in shares of vested restricted stock units. During the nine months ended September 30, 2009, the company issued 21,326 shares of the company s stock with a fair value of $132 and issued 22,458 restricted stock units with fair value of $139 that vested immediately to the Board of Directors for the annual equity awards.

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 and short-term incentive plan stock awards for the value of the statutory withholding taxes. During the nine months ended September 30, 2009 and September 30, 2008, the company paid $0.8 million and $0.9 million, respectively, for withholding taxes related to stock awards.

Stock Repurchases

On November 21, 2008, the Board of Directors authorized the repurchase of shares up to a value of $5.0 million. The company repurchased 152,747 shares at an average price of $6.12 during the three months ended September 30, 2009, and the company repurchased 271,251 shares at an average price of $5.58 during the nine months ended September 30, 2009. As of September 30, 2009, the company has $3.5 million remaining under this share repurchase program. The company repurchased 503,446 shares at an average price of $9.92 during the three months ended September 30, 2008, and the company purchased 3,526,062 shares at an average price of $8.40 during the nine months ended September 30, 2008 under share repurchase programs.

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8. Comprehensive Income

The following table provides the calculation of other comprehensive income for the three months and nine months ended September 30, 2009 and 2008, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Income (loss) from continuing operations	($755)	$ 10,909	($3,911)	$ 11,913
Foreign currency translation adjustments	(4)	(24)	20	(46)
Unrealized gain on investments	(167)	(14)	122	
Comprehensive income (loss) from continuing operations	(926)	10,871	(3,769)	11,867
Income from discontinued operations, net of tax		157		37,035
Total comprehensive income (loss)	($926)	$ 11,028	($3,769)	$ 48,902

9. Restructuring

Wi-Sys Restructuring

During the second quarter 2009, the company exited the Canadian facility related to the Wi-Sys acquisition and fully integrated the Wi-Sys product lines into the company s antenna product operations in Bloomingdale, Illinois. None of the fifteen Wi-Sys employees were retained by the company after the integration. During the three and nine months ended September 30, 2009, respectively the company incurred $0 and $0.2 million in restructuring charges for employee severance, lease termination costs, and disposition of assets.

	Accrual Balance at December 31, 2008	Restructuring Expense	Cash Payments/ Adjustments	Accrual Balance at September 30, 2009
Severance and employment related costs	$	$ 139	$ (139)	$
Assets disposed net of proceeds		65	(65)	
Facility leases		15	(15)	
	$	$ 219	$ (219)	$

Antenna Restructuring

In order to reduce costs with the antenna operations in the Bloomingdale, Illinois location, the company terminated thirteen employees during the three months ended March 31, 2009 and terminated five additional employees during the three months ended June 30, 2009. During the three and nine months ended September 30, 2009, respectively the company recorded $0 and $0.3 million in restructuring charges for severance payments for these eighteen employees.

	Accrual Balance at December 31, 2008	Restructuring Expense	Cash Payments	Accrual Balance at September 30, 2009
Severance and employment related costs	$	$ 274	($274)	$

International Sales Restructuring

In November 2008, the company announced the closure of the company s sales office in New Delhi, India. The company recorded restructuring charges of $0.1 million for severance payments and lease obligations in the fourth quarter 2008. The final restructuring payments were made in the first quarter 2009.

The following table summarizes the international sales restructuring activity during 2009 and the status of the reserves at September 30, 2009:

	Accrual Balance at December 31, 2008	Restructuring Expense	Cash Payments/ Receipts	Accrual Balance at September 30, 2009
Severance and employment related costs	$ 59	$	($59)	$
Facility and car leases	6		(6)	
	$ 65	$	($65)	$

2008 Restructuring

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In the three months ended March 31, 2008, the company incurred restructuring expense of $0.4 million. The company recorded $0.3 million for employee severance costs related to the company s restructuring of corporate overhead and $0.1 million for an adjustment to its UMTS restructuring reserve. A final adjustment to the UMTS restructuring reserve was recorded in the three months ended June 30, 2008.

10. Short Term Borrowings

The company had no borrowings at September 30, 2009 or December 31, 2008.

11. Commitments and Contingencies

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 company s allowance for sales returns was $0.2 million and $0.3 million at September 30, 2009 and December 31, 2008, respectively.

The company offers repair and replacement warranties of primarily two years for antennas products and one year for scanners and receivers. The company s warranty reserve is based on historical sales and costs of repair and replacement trends. The warranty reserve was $0.2 million at September 30, 2009 and December 31, 2008, respectively, and is included in other accrued liabilities in the accompanying condensed consolidated balance sheets. Changes in the warranty reserves during the nine months ended September 30, 2009 and 2008 were as follows:

	Nine Months Ended	
	September 30, 2009	September 30, 2008
Beginning balance	$ 193	$ 193
Provisions for warranty	53	84
Consumption of reserves	(57)	(82)
Ending balance	$ 189	$ 195

Legal Proceedings

Litigation with Wider Networks LLC

In March 2009, the company filed in the United States District Court for the District of Maryland, Greenbelt Division, a lawsuit against Wider Networks, LLC claiming patent infringement, unfair competition and false advertising, seeking damages as allowed pursuant to federal and Maryland law. In June 2009, Telecom Network Optimization, LLC d/b/a Wider Networks, filed a lawsuit against the company for patent infringement. These cases were consolidated by the court. On November 5, 2009, the parties participated in a mandatory settlement conference and signed a binding memorandum of understanding (MOU) resolving all disputes. The consolidated cases were dismissed without prejudice on November 6, 2009, and the parties will shortly enter into definitive agreements based on the binding MOU.

Under the terms of the settlement, Wider will rely exclusively on the company to distribute Wider s WIND 3G interference management system and the scanning receivers underlying those systems. The company has acquired all of the patents and intellectual property relating to Wider s products for $800,000 in consideration and $400,000 in future payments.

ITAR Disclosure

During the quarter ended September 30, 2009, the company became aware that certain PCTEL antenna products are subject to the jurisdiction of the U.S. Department of State in accordance with the International Traffic in Arms Regulations (ITAR). The company determined that its processes surrounding the design and manufacture of these antennas were not adequate to assure compliance with the ITAR, and that the company may have inadvertently violated restrictions on technology transfer called for in the ITAR. Accordingly, on October 1, 2009 the company filed a Voluntary Disclosure with the Directorate of Defense Trade Controls (DTCC), Department of State, describing the details of the non-compliance. On October 15, 2009, the company received a letter from the DTCC requesting that the company provide a full disclosure within 60 days of the date of their letter. At this time it is not possible to determine whether any fines or other penalties will be asserted against the company or the materiality of any outcome.

12. Income Taxes

The company recorded an income tax provision of $0.3 million in the three months ended September 30, 2009 and recorded an income tax benefit of $1.0 million in the nine months ended September 30, 2009. This tax provision for the three months ended September 30, 2009 represents an effective rate of (72)% and the tax benefit for the nine months ended September 30, 2009 represents an effective rate of 20%. The tax rate differs from the statutory rate of 34% primarily because of permanent tax differences, foreign taxes and from revisions to the tax rates due to changes in income projections.

For the nine months ended September 30, 2008, the company recorded a net income tax benefit of $8.5 million for continuing operations. The net tax benefit of $8.5 million includes continuing income tax expense of $1.9 million offset by a $10.4 million tax benefit related to the reversal of allowances on the company s deferred tax assets. The continuing income tax expense differs from the statutory rate of 35% because of permanent tax differences.

Significant management judgment is required to assess the likelihood that the company s deferred tax assets will be recovered from future taxable income. The company maintains a valuation allowance of $1.2 million against deferred tax assets because of uncertainties regarding whether they will be realized.

Accounting for uncertainty in income taxes is based on a comprehensive model for recognizing, measuring, presenting and disclosing uncertain income tax positions taken or expected to be taken by the Company on our tax returns. The company s gross unrecognized tax benefit was $0.9 million both at September 30, 2009 and December 31, 2008.

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 federal and state income tax years, with limited exceptions, are closed through 2004. The company does not believe that any of its tax positions will significantly change within the next twelve months.

The company classifies interest and penalties associated with the uncertain tax positions as a component of income tax expense. There was no interest or penalties related to income taxes recorded in the condensed consolidated financial statements.

13. Customer and Geographic Information

The company s revenues to customers outside of the United States, as a percent of total revenues for the three months and nine months ended September 30, 2009 and 2008, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Region	**2009**	**2008**	**2009**	**2008**
Europe, Middle East, & Africa	26%	26%	25%	30%
Asia Pacific	9%	9%	15%	7%
Other Americas	8%	9%	7%	8%
Total Foreign sales	43%	44%	47%	45%

Revenue from the company s major customers representing 10% or more of total revenues for the three months and nine months ended September 30, 2009 and 2008 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Customer	**2009**	**2008**	**2009**	**2008**
Ericsson AB	9%	10%	10%	12%

14. Benefit Plans

401(k) Plan

The 401(k) plan covers all of the domestic employees beginning the first of the month following the month they begin 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

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annual limit. The company may make discretionary contributions to the 401(k) plan. The company made employer contributions of $132 and $407 to the 401(k) plan for the three months and nine months ended September 30, 2009, respectively. The company made employer contributions of $137 and $407 to the 401(k) plan for the three months and nine months ended September 30, 2008, respectively.

Foreign Employee Benefit Plans

The company contributes to various retirement plans for foreign employees. The company made contributions of approximately $16 and $25 to these plans for the three months ended September 30, 2009 and 2008, respectively. The company made contributions of approximately $45 and $65 to these plans for the nine months ended September 30, 2009 and 2008, respectively

Executive Deferred Compensation Plan

The company provides an Executive Deferred Compensation Plan for executive officers and senior managers. Under this plan, the executives may defer up to 50% of salary and 100% of cash bonuses. In addition, the company provides a 4% matching cash contribution which vests over three years subject to the executive s continued service. The executive has a choice of investment alternatives from a menu of mutual funds. The plan is administered by the Compensation Committee and an outside party tracks investments and provides the executives with quarterly statements showing relevant contribution and investment data. Upon termination of employment, death, disability or retirement, the executive will receive the value of his or her account in accordance with the provisions of the plan. Upon retirement, the executive may request to receive either a lump sum payment, or payments in annual installments over 15 years or over the lifetime of the participant with 20 annual payments guaranteed. The deferred compensation obligation included in Long-Term Accrued Liabilities in the condensed consolidated balance sheets was $0.9 million at September 30, 2009 and $0.7 million at December 31, 2008. The company funds the obligation related to the Executive Deferred Compensation Plan with corporate-owned life insurance policies. The cash surrender value of such policies is included in Other Assets.

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15. Stockholders Equity

The following table is a summary of the activity in stockholders equity during the nine months ended September 30, 2009 and 2008:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Number of common shares outstanding:		
Balance at beginning of period	18,236	21,917
Common stock repurchases	(271)	(3,526)
Stock-based compensation, net of taxes	693	360
Balance at end of period	18,658	18,751
Common stock:		
Balance at beginning of period	$ 18	$ 22
Common stock repurchases	(1)	(2)
Stock-based compensation, net of taxes	1	(1)
Balance at end of period	$ 18	$ 19
Additional paid-in capital:		
Balance at beginning of period	$ 137,930	$ 165,108
Stock-based compensation, net of taxes	2,330	4,970
Common stock repurchases	(1,515)	(29,618)
Tax benefit from shares issued under equity-based compensation plans	(192)	1,979
Balance at end of period	$ 138,553	$ 142,439
Accumulated deficit:		
Balance at beginning of period	($12,639)	($40,640)
Dividends		(10,294)
Net income (loss)	(3,911)	48,948
Balance at end of period	($16,550)	($1,986)
Accumulated other comprehensive income:		
Balance at beginning of period	$ 9	$ 77
Foreign translation	20	(46)
Unrealized gain on investments	122	
Balance at end of period	$ 151	$ 31
Total stockholders equity	$ 122,172	$ 140,503

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

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report and in conjunction with the financial statements for the year ended December 31, 2008 contained in our Form 10-K filed on March 16, 2009. Except for historical information, the following discussion contains forward looking statements that involve risks and uncertainties, including statements regarding our anticipated revenues, profits, costs and expenses and revenue mix. These forward-looking statements include, among others, those statements including the words may, will, plans, seeks, expects, anticipates, in believes and words of similar import. Such statements constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements.

Introduction

PCTEL focuses on wireless broadband technology related to propagation and optimization. We design and develop innovative antennas that extend the reach of broadband and other wireless networks that simplify the implementation of those networks. Our antenna solutions support public safety applications, unlicensed and licensed wireless broadband, fleet management, network timing, and other global positioning systems (GPS) applications. We provide highly specialized software-defined radios that facilitate the design and optimization of broadband wireless networks. Our portfolio of scanning receivers and interference management solutions are used to measure, monitor and optimize cellular networks. We supply our products to public and private carriers, wireless infrastructure providers, wireless equipment distributors, Value Added Resellers (VARs) and other Original Equipment Manufacturers (OEMs). We maintain expertise in several technology areas. These include digital signal processing (DSP) chipset programming, radio frequency, software engineering, mobile, antenna design and manufacture, mechanical engineering, product quality and testing, advanced algorithm development, and cellular engineering.

Growth in product revenue is dependent both on gaining further revenue traction in the existing product portfolio as well as further acquisitions to support the wireless initiatives. Revenue growth for antenna products is correlated to emerging wireless applications in broadband wireless, in-building wireless, wireless Internet service providers, GPS and Mobile SATCOM. Land mobile radio (LMR), private mobile radio (PMR), digital private mobile radio (DPMR), and on-glass mobile antenna applications represent mature markets. Our newest products address Worldwide Interoperability for Microwave Access (WiMAX) standards and applications. Revenue for scanning receivers is tied to the deployment of new wireless technology, such as 2.5G and 3G, and the need for existing wireless networks to be tuned and reconfigured on a regular basis.

On January 5, 2009, we acquired all of the outstanding share capital of Wi-Sys Communications Inc. (Wi-Sys), a Canadian manufacturer of products for GPS, terrestrial and satellite communication systems, including programmable GPS receivers and high performance antennas. The Wi-Sys product line augments our GPS antenna product line. During the second quarter 2009, we exited the Wi-Sys Canadian facility and fully integrated the Wi-Sys product lines into our antenna product operations in Bloomingdale, Illinois. During the nine months ended September 30, 2009 we incurred a restructuring charge of $0.2 million for employee severance, lease termination costs, and asset dispositions.

On March 14, 2008, we acquired certain assets of Bluewave Antenna Systems, Ltd (Bluewave). The Bluewave product line augments our LMR antenna product line.

On October 9, 2008, we sold four of our antenna product families to Sigma Wireless Technology Ltd, a Scotland based company (SWTS). The four antenna product families represent the remaining antenna products from our acquisition of Sigma Wireless Technology Limited (Sigma) in 2005. Sigma and SWTS are not related.

On January 4, 2008, we sold our Mobility Solutions Group (MSG) to Smith Micro Software, Inc. (NASDAQ: SMSI) (Smith Micro). MSG produced mobility software products for WiFi, Cellular, IP Multimedia Subsystem, and wired applications. The financial results for MSG are presented in the financial statements as discontinued operations.

We also have a reporting unit that licenses an intellectual property portfolio in the area of analog modem technology. As of the second quarter 2009, the revenues and cash flows associated with this reporting unit were substantially complete. In 2009 and for comparable periods this reporting unit does not meet the quantitative threshold requirements of a reportable segment. As such, the results for licensing for all periods presented are aggregated with the rest of the company.

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Current Economic Environment

We believe the current economic conditions have reduced spending by consumers and businesses in markets into which we sell our products in response to tighter credit, negative financial news and the continued uncertainty of the global economy. Consequently, the global demand for our products has also decreased. This decrease in demand is having a negative impact on our revenues, results of operations, and overall business. It is uncertain how long the current economic conditions will last or how quickly any subsequent economic recovery will occur. If the economy or markets into which we sell our products continue to slow or any subsequent economic recovery is slow to occur, our business, financial condition and results of operations could be further materially and adversely affected.

Results of Operations

Three Months and Nine Months Ended September 30, 2009 and 2008

Revenues

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue	$ 13,709	$ 20,087	$ 41,216	$ 58,661
Percent change from year ago period	(31.8%)	14.0%	(29.7%)	15.6%

Revenues decreased 31.8% in the three months ended September 30, 2009 and 29.7% in the nine months ended September 30, 2009 compared to the same periods in 2008 as both scanning receiver and antenna product lines experienced declines. In the three months ended September 30, 2009 versus the comparable period in the prior year, approximately 23% of the decline is attributable to antennas and approximately 8% of the decline is attributable to scanning receivers. In the nine months ended September 30, 2009 versus the comparable period in the prior year, approximately 19% of the decline is attributable to antennas and approximately 10% of the decline is attributable to scanning receivers. Antenna revenues were lower in our distribution and OEM channels, reflecting particular softness in land mobile radio systems, continued delays in mobile WiMAX rollout, and defense related antenna sales. Scanning receiver revenues were lower due to reduced capital expenditures levels worldwide and due to delays in carrier spending caused by the transition from Evolution Date Optimized to the Long-Term Evolution technology standard for communication networks.

Gross Profit

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Gross profit	$ 6,426	$ 9,560	$ 19,155	$ 28,034
Percentage of revenue	46.9%	47.6%	46.5%	47.8%
Percent of revenue change from year ago period	(0.7%)	2.9%	(1.3%)	3.2%

Gross margin of 46.9% in the three months ended September 30, 2009 was 0.7% lower than the comparable period in fiscal 2008. Scanners contributed 0.3% of the margin percentage decrease and antennas contributed 0.4% of the margin percentage decrease in the three months ended September 30, 2009 versus the comparable period in 2008. Gross margin of 46.5% in the nine months ended September 30, 2009 was 1.3% lower than the comparable period in fiscal 2008. Scanners contributed 0.7% of the margin percentage decrease and antennas contributed 0.6% of the margin percentage decrease in the nine months ended September 30, 2009 versus the comparable period in 2008. In the three months and nine months ended September 30, 2009, the lower gross margin reflects the cost of lower overall volume over our fixed costs.

Research and Development

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Research and development	$ 2,673	$ 2,591	$ 8,010	$ 7,387
Percentage of revenues	19.5%	12.9%	19.4%	12.6%
Percent change from year ago period	3.2%	20.2%	8.4%	0.1%

Research and development expenses increased approximately $0.1 million for the three months ended September 30, 2009 and increased approximately $0.6 million for the nine months ended September 30, 2009 compared to the comparable periods in 2008. During the nine months ended September 30, 2009, expenses were higher than the comparable period in the prior year because we invested in the development of new scanning receivers and because of the acquisition of certain assets of Bluewave in March 2008 and Wi-Sys in January 2009. During the integration of the Bluewave and Wi-Sys acquisitions, we incurred incremental engineering expenses.

Sales and Marketing

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Sales and marketing	$ 1,845	$ 2,543	$ 5,841	$ 8,180
Percentage of revenues	13.5%	12.7%	14.2%	13.9%
Percent change from year ago period	(27.4%)	(10.0%)	(28.6%)	(0.6%)

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

Sales and marketing expenses decreased approximately $0.7 million for the three months ended September 30, 2009 and decreased approximately $2.3 million for the nine months ended September 30, 2009 compared to the same periods in fiscal 2008. These decreases are due to the headcount reductions in several unproductive international sales offices and due to lower commissions to sales people and manufacturers representatives. The headcount reductions occurred in the third and fourth quarters of 2008.

General and Administrative

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
General and administrative	$ 2,169	$ 2,619	$ 7,245	$ 8,372
Percentage of revenues	15.8%	13.0%	17.6%	14.3%
Percent change from year ago period	(17.2%)	(16.3%)	(13.5%)	(13.7%)

General and administrative expenses include costs associated with the general management, finance, human resources, information technology, legal, insurance, public company costs, and other operating expenses to the extent not otherwise allocated to other functions.

General and administrative expenses decreased approximately $0.5 million for the three months ended September 30, 2009 and approximately $1.1 million for the nine months ended September 30, 2009 compared to the same periods in fiscal 2008. For the three months ended September 30, 2009, the expense decrease is due to $0.2 million lower stock compensation expense for employees in general and administrative functions and $0.3 million due to corporate cost reductions. For the nine months ended September 30, 2009, the expense decrease is due to $0.7 million lower stock compensation expense for employees in general and administrative functions and $0.4 million due to corporate cost reductions.

Amortization of Intangible Assets

Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008

Amortization of other intangible assets	$ 553	$ 552	$ 1,660	$ 1,544
Percentage of revenues	4.0%	2.7%	4.0%	2.6%

Amortization was unchanged in the three months ended September 30, 2009 compared to the same period in 2008. Amortization expense related to the Wi-Sys acquisition in January 2009 offset the impact from the sale of product lines to SWTS in October 2008. Amortization increased approximately $0.1 million in the nine months ended September 30, 2009 compared to the same period in 2008 due to the intangible amortization from the acquisitions of Bluewave in March 2008 and Wi-Sys in January 2009.

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Restructuring Charges

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Restructuring charges	$	$	$ 494	$ 364
Percentage of revenues			1.2%	0.6%

There were no restructuring charges incurred during the three months ended September 30, 2009. During the nine months ended September 30, 2009, we recorded $0.2 million expense related to Wi-Sys restructuring and $0.3 million expense related to antenna operations.

In order to reduce costs with the antenna operations in the Bloomingdale, Illinois location, we terminated thirteen employees during the three months ended March 31, 2009 and terminated five additional employees during three months ended June 30, 2009. During the nine months ended September 30, 2009, we recorded $0.3 million in restructuring expense for severance payments for these eighteen employees.

During the second quarter 2009, we exited the Ottawa, Canada location related to the Wi-Sys acquisition and integrated their operations in our Bloomingdale, Illinois location. The restructuring expense of $0.2 million relates to employee severance, lease termination, and other shut down costs.

During the nine months ended September 30, 2008, we incurred charges of approximately $0.3 million related to employee severance costs related to the reduction of corporate overhead and $0.1 million related to adjustments to our UMTS restructuring reserves. We streamlined our corporate overhead structure to reduce general and administrative expenses

Impairment of Goodwill

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Impairment of goodwill	$	$	$ 1,485	$
Percentage of revenues			3.6%	

In March 2009, we recorded goodwill impairment of $1.5 million. This amount represented the remaining $0.4 million of goodwill for Licensing and the $1.1 million in goodwill recorded with the Wi-Sys acquisition in January 2009. We tested our goodwill for impairment because our market capitalization was below our book value at March 31, 2009. We considered this market capitalization deficit as a triggering event. For testing goodwill for impairment.

Loss on sale of product lines and related note receivable