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

**FORM 10-Q**

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-07336

**RELM WIRELESS CORPORATION**

(Exact name of registrant as specified in its charter)

**Nevada**  
State or other jurisdiction of  
Incorporation or organization

**59-3486297**  
(I.R.S. Employer  
Identification No.)

7100 Technology Drive  
West Melbourne, Florida 32904  
(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: (321) 984-1414

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data 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

No

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

There were 13,410,871 shares of common stock, \$0.60 par value, of the registrant outstanding at May 1, 2009.

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**PART I. - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**RELM WIRELESS CORPORATION**  
**Condensed Consolidated Balance Sheets**  
*(In thousands, except share data)(Unaudited)*

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 4,647	\$ 5,475
Trade accounts receivable (net of allowance for doubtful accounts of \$44 at March 31, 2009 and \$81 at December 31, 2008, respectively)	2,364	1,769
Inventories, net	9,041	9,774
Deferred tax assets, net	1,562	1,562
Prepaid expenses and other current assets	593	931
Total current assets	<u>18,207</u>	<u>19,511</u>
Property, plant and equipment, net	1,599	1,386
Deferred tax assets, net	7,638	7,638
Capitalized software, net	2,163	1,732
Other assets	429	355
Total assets	<u>\$ 30,036</u>	<u>\$ 30,622</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 1,998	\$ 1,849
Accrued compensation and related taxes	699	617
Accrued warranty expense	275	302
Accrued other expenses and other current liabilities	172	110
Total current liabilities	<u>3,144</u>	<u>2,878</u>
Long-term debt	1,500	1,500
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$1.00 par value; 1,000,000 authorized shares none issued or outstanding	-	-
Common stock; \$.60 par value; 20,000,000 authorized shares: 13,410,871 issued and outstanding shares at March 31, 2009 and December 31, 2008, respectively	8,046	8,046
Additional paid-in capital	24,035	24,020
Accumulated deficit	(6,689)	(5,822)
Total stockholders' equity	<u>25,392</u>	<u>26,244</u>
Total liabilities and stockholders' equity	<u>\$ 30,036</u>	<u>\$ 30,622</u>

*See notes to condensed consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**Condensed Consolidated Statements of Operations**  
*(In thousands, except per share data) (Unaudited)*

	<b>Three Months Ended</b>	
	<b>March 31, 2009</b>	March 31, 2008
Sales, net	\$ 3,973	\$ 3,510
Expenses		
Cost of products	2,358	2,126
Selling, general and administrative	2,467	3,504
Total expenses	4,825	5,630
Operating loss	(852)	(2,120)
Other income (expense):		
Net interest (expense) income	(16)	65
Other (expense) income	1	(3)
Total other (expense) income	(15)	62
Loss before income tax benefit	(867)	(2,058)
Income tax benefit	-	699
Net loss	\$ (867)	\$ (1,359)
Net loss per share-basic and diluted:	\$ (0.06)	\$ (0.10)
Weighted average shares outstanding-basic and diluted	13,410,871	13,395,871

*See notes to condensed consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
*(In thousands) (Unaudited)*

	<b>Three Months Ended</b>	
	<b>March 31, 2009</b>	March 31, 2008
<b>Cash flows from operating activities</b>		
Net loss	\$ (867)	\$ (1,359)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	(36)	71
Inventories reserve	91	259
Deferred tax asset	-	(699)
Depreciation and amortization	107	88
Amortization of capitalized software	58	-
Shared-based compensation expense	15	25
Change in operating assets and liabilities:		
Accounts receivable	(559)	38
Inventories	642	(1,086)
Prepaid expenses and other current assets	338	160
Capitalized software	(489)	-
Other assets	(74)	48
Accounts payable	149	347
Accrued compensation and related taxes	82	(26)
Accrued warranty expense	(27)	4
Accrued other expenses and other current liabilities	62	66
<b>Net cash used in operating activities</b>	<b>(508)</b>	<b>(2,064)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(320)	(82)
<b>Net cash used in investing activities</b>	<b>(320)</b>	<b>(82)</b>
Net change in cash and cash equivalents	(828)	(2,146)
Cash and cash equivalents, beginning of period	5,475	8,452
Cash and cash equivalents, end of period	<b>\$ 4,647</b>	<b>\$ 6,306</b>
<b>Supplemental disclosure</b>		
Cash paid for interest	<b>\$ 3</b>	<b>\$ -</b>
Cash paid for income tax	<b>\$ -</b>	<b>\$ 28</b>

*See notes to condensed consolidated financial statements.*

## Notes to Condensed Consolidated Financial Statements

### Unaudited

(in Thousands, Except Share Data and Percentages)

#### 1. Condensed Consolidated Financial Statements

The condensed consolidated balance sheets as of March 31, 2009 and December 31, 2008, the condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008 and the condensed consolidated statements of cash flows for the three months ended March 31, 2009 and 2008 have been prepared by RELM Wireless Corporation (the Company), and are unaudited. In the opinion of management, all adjustments, which include normal recurring adjustments, necessary for a fair presentation have been made. The condensed consolidated balance sheet at December 31, 2008 has been derived from the Company's audited consolidated financial statements at that date.

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. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the operating results for a full year.

#### Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standard No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" (SFAS 159), providing companies with an option to report selected financial assets and liabilities at fair value. SFAS 159's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. United States generally accepted accounting principles has required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of asset and liabilities. SFAS 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company's choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which it has chosen to use fair value on the face of the balance sheet. The Company adopted SFAS 159 in the first quarter 2008. The adoption of SFAS 159 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*." This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. This standard also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted this standard in the first quarter 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statement*" was issued. This standard improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Under the new standard, noncontrolling interests are to be treated as a separate component of stockholders' equity, not as a liability or other item outside of stockholders' equity. This standard also requires that increases and decreases in the noncontrolling ownership be accounted for as equity transactions. This standard is effective for fiscal years beginning after December 15, 2008. The Company adopted this standard in the first quarter 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

## Notes to Condensed Consolidated Financial Statements

### Unaudited

(in Thousands, Except Share Data and Percentages)

In May 2008, the FASB issued SFAS No. 162, “*The Hierarchy of Generally Accepted Accounting Principles*” (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 shall be effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.*” The Company does not believe the adoption of SFAS 162 will have a material impact on its consolidated financial statements.

### 2. Significant Events and Transactions

In February 2009, the Company entered the market for P25 digital 800MHz portable radios with the introduction of the KNG-P800, its first product in this frequency band.

In April 2009, the Company received orders totaling \$5.2 million from the U.S. Department of Defense for its new P25 digital KNG products and related equipment. It is anticipated that these orders will be largely fulfilled during the second quarter 2009.

### 3. Allowance for Doubtful Accounts

The allowance for collection losses on trade receivables was approximately \$44 on gross trade receivables of \$2,408 at March 31, 2009. This allowance is used to state trade receivables at a net realizable value or the amount that the Company estimates will be collected of the Company’s gross receivables as of March 31, 2009.

### 4. Inventories, net

The components of inventory, net of reserves totaling \$2,497 at March 31, 2009 and \$2,406 at December 31, 2008, respectively, consist of the following:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Finished goods	\$ 3,483	\$ 4,294
Work in process	3,000	3,044
Raw materials	2,558	2,436
	<u>\$ 9,041</u>	<u>\$ 9,774</u>

The reserve for slow-moving, excess, or obsolete inventory was approximately \$2,497 at March 31, 2009, as compared to approximately \$2,406 at December 31, 2008. The reserve for slow-moving, excess, or obsolete inventory is used to state the Company’s inventories at the lower of cost or market.

### 5. Income Taxes

No income tax benefit or expense was recorded for the three months ended March 31, 2009. Accordingly, as of March 31, 2009, the Company’s deferred tax assets were unchanged from December 31, 2008, totaling approximately \$9,200. Deferred tax assets are primarily composed of net operating loss carry forwards (NOLs). These NOLs are available to offset Federal or state taxable income and expire starting in 2018 through 2028.

In order to fully realize the net deferred tax asset, the Company will need to generate sufficient taxable income in future years to utilize its NOLs prior to their expiration. SFAS. 109, “*Accounting for Income Taxes*” requires the Company to analyze all positive and negative evidence to determine if, based on the weight of available evidence, the Company is more likely than not to realize the benefit of the net deferred tax asset. The recognition of the net deferred tax asset and related tax benefit is based upon the Company’s conclusions regarding, among other considerations, estimates of future earnings based on information currently available, current and anticipated

## Notes to Condensed Consolidated Financial Statements

### Unaudited

(in Thousands, Except Share Data and Percentages)

customers, contracts and product introductions, as well as recent operating results during 2008, 2007 and 2006, and certain tax planning strategies.

The Company has evaluated the available evidence and the likelihood of realizing the benefit of its net deferred tax asset. From its evaluation, the Company has established a valuation allowance against its deferred tax assets totaling approximately \$372. The Company cannot presently estimate what, if any, changes to the valuation of its deferred tax asset may occur in the future. If the Company incurs future losses, it may be necessary to record additional valuation allowance related to the deferred tax asset recorded as of March 31, 2009.

#### 6. Capitalized Software

The Company accounts for the costs of software within our products in accordance with SFAS No. 86 “Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed”, under which certain software costs incurred subsequent to the establishment of technological feasibility are capitalized and amortized over the estimated lives of the related products. The Company determines technological feasibility to be established upon the internal release of a detailed program design as specified by SFAS 86. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding five years, based on the estimated economic life of the product. As of March 31, 2009, the Company’s amortization cost was \$58 and the net capitalized software costs totaled \$2,163.

#### 7. Stockholders’ Equity

The consolidated changes in stockholders’ equity for the three months ended March 31, 2009 are as follows:

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 2008	13,410,871	\$ 8,046	\$ 24,020	\$ (5,822)	\$ 26,244
Share-based compensation expense	—	—	15	—	15
Net loss	—	—	—	(867)	(867)
Balance at March 31, 2009	<u>13,410,871</u>	<u>\$ 8,046</u>	<u>\$ 24,035</u>	<u>\$ (6,689)</u>	<u>\$ 25,392</u>

**Notes to Condensed Consolidated Financial Statements**

**Unaudited**

*(in Thousands, Except Share Data and Percentages)*

**8. Loss per Share**

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

	<b>Three Months Ended</b>	
	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Numerator:		
Net loss (numerator for basic and diluted earnings per share)	<u>\$ (867)</u>	<u>\$ (1,359)</u>
Denominator:		
Denominator for basic and diluted earnings per share weighted average shares	<b>13,410,871</b>	13,395,871
Basic and dilutive loss per share	<u>\$ (0.06)</u>	<u>\$ (0.10)</u>

A total of 1,186,912 shares and a total of 768,000 shares related to options are not included in the computation of loss per share for the three months ended March 31, 2009 and 2008, respectively, because to do so would have been anti-dilutive for those periods.

**9. Non-Cash Share-Based Employee Compensation**

The Company has employee and non-employee director stock option programs. Related to these programs, and in accordance with SFAS No. 123R, "*Share-Based Payment*", the Company recorded \$15 of non-cash share-based employee compensation expense for the three months ended March 31, 2009, compared to \$25 for the same period last year. The Company considers its non-cash share-based employee compensation expenses as a component of cost of products (\$0 for the three months ended March 31, 2009, compared to \$1 for the same period last year) and selling, general and administrative expenses (\$15 for the three months ended March 31, 2009, compared to \$24 for the same period last year). No non-cash share-based employee compensation expense was capitalized as part of capital expenditures or inventory for the periods presented.

The Company uses the Black-Scholes-Merton option valuation model to calculate the fair value of a stock option grant. The non-cash share-based employee compensation expense recorded in the three months ended March 31, 2009 was calculated using the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's common stock over the period of time commensurate with the expected life of the stock options. The dividend yield of zero is based on the facts that the Company presently has no intention to pay cash dividends in the future and the Company is prohibited from doing so under its current secured revolving credit facility. The Company has estimated future stock option exercises by the optionees. The expected term of option grants is based upon the observed and expected time to the date of post vesting exercise and forfeitures of options by the optionees. The risk-free interest rate is derived from the average U.S. Treasury rate for the periods, which approximates the rate at the time of the stock option grant.

**FISCAL YEAR ENDED  
DECEMBER 31, 2008**

Expected Term in Years	3.0-6.0
Expected Volatility	61.7%-88.7%
Risk-Free Rate	2.86%
Expected Dividends	0.00

A summary of stock option activity under our stock option plans as of March 31, 2009, and changes during the three months ended March 31, 2009 are presented below:

<u>As of January 1, 2009</u>	<u>Stock Options</u>	<u>Wgt. Avg. Exercise Price (\$)</u>	<u>Wgt. Avg. Remaining Contractual Life (Years)</u>	<u>Wgt. Avg. Grant Date Fair Value(\$)</u>	<u>Aggregate Intrinsic Value (\$)</u>
Outstanding	1,191,912	2.52	-	1.71	-
Vested	1,061,912	2.64	-	1.79	-
Nonvested	130,000	1.50	-	0.99	-
<b>Period activity</b>					
Issued	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited	5,000	4.50	-	2.68	-
Expired	-	-	-	-	-
<b>As of March 31, 2009</b>					
Outstanding	1,186,912	2.51	3.33	1.70	-
Vested	1,056,912	2.63	2.74	1.79	-
Nonvested	130,000	1.50	8.12	0.99	-

## 10. Commitments and Contingencies

### Legal Proceedings

From time to time the Company may be involved in various claims and legal actions arising in the ordinary course of its business. There were no pending claims or legal matters as of March 31, 2009.

### Other

As of March 31, 2009, the Company had commitments for purchase orders to suppliers of approximately \$4,089.

### Significant Customers

Sales to the United States government represented approximately \$1,000 (25.2%) of the Company's total sales for the three months ended March 31, 2009, compared with approximately \$1,000 (31.1%) for the same period last year.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

We believe that it is important to communicate our future expectations to our security holders and to the public. This report, therefore, contains statements about future events and expectations which are “forward-looking statements” within the meaning of Sections 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934, including the statements about our plans, objectives, expectations and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” You can expect to identify these statements by forward-looking words such as “may,” “might,” “could,” “would,” “will,” “anticipate,” “believe,” “plan,” “estimate,” “project,” “expect,” “intend,” “seek” and other similar expressions. Any statement contained in this report that is not a statement of historical fact may be deemed to be a forward-looking statement. Although we believe that the plans, objectives, expectations and prospects reflected in or suggested by our forward-looking statements are reasonable, those statements involve risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements, and we can give no assurance that our plans, objectives, expectations and prospects will be achieved.

Important factors that might cause our actual results to differ materially from the results contemplated by the forward-looking statements are contained in the “Risk Factors” section of and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and in our subsequent filings with the Securities and Exchange Commission, and include, among others, the following:

- changes in customer preferences;
- our inventory and debt levels;
- heavy reliance on sales to agencies of the United States government;
- federal, state and local government budget deficits and spending limitations;
- quality of management, business abilities and judgment of our personnel;
- the availability, terms and deployment of capital;
- competition in the land mobile radio industry;
- reliance on contract manufacturers;
- limitations in available radio spectrum for use of land mobile radios;
- changes or advances in technology; and
- general economic and business conditions amid the financial crisis.

We assume no obligation to publicly update or revise any forward-looking statements made in this report, whether as a result of new information, future events, changes in assumptions or otherwise, after the date of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.

Reported dollar amounts in management’s discussion and analysis are disclosed in millions or as whole dollar amounts.

### **Executive Summary**

Our first quarter 2009 financial and operating results improved from the first quarter of 2008 and from the preceding quarter, including increased total sales, increased sales of P25 digital products and a decreased operating loss. Additionally, our inventory position improved, declining 8% from the end of 2008.

Procurement activity in our addressable markets for the first quarter 2009 showed some modest increases from the fourth quarter 2008 and from the first quarter 2008, but generally remained slow compared with quarters

preceding 2008, particularly with federal government agencies. We believe this is primarily attributed to economic conditions, budgetary constraints and delays in contract administration. While the business climate for our government customers remains uncertain, there have been some indications of stabilization and possible improvements later this year.

For the first quarter ended March 31, 2009, total sales were approximately \$4.0 million, an increase of approximately \$0.5 million (13.2%), compared with the same quarter last year, and an increase of \$0.4 million (11.1%) compared to the fourth quarter 2008. Sales of P25 digital products for the first quarter comprised approximately \$1.8 million (45.2% of total sales) compared with approximately \$1.2 million (34.6% of total sales) for the same quarter last year, and compared with \$1.3 million (35.0% of total sales) for the immediately preceding quarter.

Gross margins for the three months ended March 31, 2009 improved to 40.6% compared with 39.4% for the same quarter last year, a reflection of increased sales volumes and a more favorable mix of product sales.

Selling, general and administrative expenses decreased approximately \$1.0 million (29.6%) to \$2.4 million for the three months ended March 31, 2009, compared with \$3.5 million for the same quarter last year. We have continued to implement actions to reduce selling, general and administrative expenses.

Pretax loss for the three months ended March 31, 2009 was approximately \$0.9 million compared with approximately \$2.1 million for the same quarter last year.

For the three months ended March 31, 2009, we recognized no income tax benefit, compared with an income tax benefit of approximately \$0.7 million for the same quarter last year.

Net loss for the three months ended March 31, 2009 was approximately \$0.9 million, or \$0.06 per share, compared with approximately \$1.4 million, or \$0.10 per share, for the same quarter last year.

As of March 31, 2009, we had approximately \$4.6 million of cash and cash equivalents compared with approximately \$5.5 million as of December 31, 2008.

### **Results of Operations**

As an aid to understanding our operating results for the periods covered by this report, the following table shows selected items from our condensed consolidated statements of operations expressed as a percentage of sales:

	<b>Percentage of Sales</b>	
	<b>Three Months Ended</b>	
	<b>March 31, 2009</b>	March 31, 2008
Sales	<b>100.0%</b>	100.0%
Cost of products	<b>(59.4)</b>	(60.6)
Gross margin	<b>40.6</b>	39.4
Selling, general and administrative expenses	<b>(62.1)</b>	(99.8)
Net interest (expense) income	<b>(0.4)</b>	1.9
Other income (expense)	<b>0.1</b>	(0.1)
Pretax loss	<b>(21.8)</b>	(58.6)
Income tax benefit	<b>0.0</b>	19.9
Net loss	<b>(21.8%)</b>	(38.7%)

### **Net Sales**

Net sales for the first quarter ended March 31, 2009 increased \$0.5 million (13.2%) to approximately \$4.0 million compared with approximately \$3.5 million for the first quarter last year. Sales of P25 digital products in the

first quarter 2009 were approximately \$1.8 million, or 45.2% of total sales, compared with approximately \$1.2 million, or 34.6% of total sales, for the first quarter last year. Net sales during the first quarter were approximately \$0.4 million, or 11.1% higher than the fourth quarter 2008.

While procurement activity in general remains well below levels preceding 2008, procurements from government and public safety agencies, particularly those in the federal sector, showed improvement relative to fourth quarter 2008 and the first quarter 2008 as some funding became available. Additionally, we were included on a blanket purchase agreement (BPA) from the U.S. General Services Administration that was implemented in the fourth quarter 2008. The total estimated value of this BPA is \$500 million to various suppliers over a maximum term of five years. This BPA will be utilized by various federal government agencies for the purchase of a wide range of analog and P25 digital radio equipment. Since the first quarter 2008, we have also significantly expanded our P25 digital product offerings with the introduction of four new radio models, some of which address customers and markets that we were previously outside the scope of our products. We anticipate introducing additional new products in this line later in 2009. We believe these products will increase our addressable opportunities and, accordingly, improve our prospects for gaining market share and sales growth.

### **Cost of Products and Gross Margin**

Cost of products as a percentage of sales for the three months ended March 31, 2009 was 59.4% compared with 60.6% for the same quarter last year.

Changes in our cost of products are primarily related to product mix and manufacturing volume. Although manufacturing volumes remain below levels preceding 2008, they improved relative to the first quarter last year, as did the mix of higher margin products. Both of these factors enabled us to utilize and absorb more of our base of manufacturing and support expenses, thereby yielding lower product costs as a percentage of sales and a correlating increase in gross margin.

We continue to utilize contract manufacturing relationships to maximize production efficiencies and minimize material and labor costs. We also regularly consider manufacturing alternatives to improve quality, speed and to reduce our product costs. We anticipate that the current contract manufacturing relationships or comparable alternatives will be available to us in the future. Increasing sales volumes and P-25 product sales combined with the introduction of planned new products, we believe, should result in improved cost efficiencies and gross margin performance.

### **Selling, General and Administrative Expenses**

Selling, general and administrative (SG&A) expenses consist of marketing, sales, commissions, engineering, product development, management information systems, accounting, headquarters and non-cash share-based employee compensation expenses. During the first quarter 2009, we continued to implement actions to reduce SG&A expenses in response to the sluggish and uncertain business climate. These cost reductions were in addition to the reductions implemented during 2008 and are not anticipated to adversely impact the execution of our strategic business plan.

For the first quarter ended March 31, 2009, SG&A expenses totaled approximately \$2.5 million (62.1% of sales) compared with approximately \$3.5 million (99.8% of sales) for the same quarter last year.

Engineering and product development expenses for the three months ended March 31, 2009 decreased by approximately \$458,000 (33.8%) compared with the same quarter last year. The completion of several digital development initiatives and the related new product introductions enabled us to reduce the associated engineering costs. Additional new products in our KNG line are in the development process for introduction later this year and next, however we don't anticipate increases in current engineering expense levels related to these development projects.

Marketing and selling expenses for the first quarter ended March 31, 2009 decreased by approximately \$243,000 (20.1%) compared with the same quarter last year. During the first quarter, in response to a continuation of low demand and sales, we reduced selling expenses and payroll. These reductions are in addition to those that were implemented during 2008. We are continuing, however, to invest in selling and marketing initiatives focused

on raising the profile of our new KNG product line while penetrating new customers and markets. Partially offsetting expense and payroll reductions, sales commissions increased as a result of higher sales for the quarter compared with the same quarter last year.

General and administrative expenses for the three months ended March 31, 2009 decreased by approximately \$336,000 (35.7%) compared with the same periods last year primarily due to reductions in professional fees and headquarters' expenses.

### **Operating Loss**

Operating loss for the three months ended March 31, 2009 was approximately \$0.9 million (21.4% of sales) compared with approximately \$2.1 million (60.4% of sales) for the same quarter last year. The lower operating loss for the first quarter 2009 was derived primarily from SG&A expense reductions combined with modest improvements in sales and gross margins.

### **Net Interest (Expense) Income**

For the three months ended March 31, 2009, we incurred approximately \$16,000 in net interest expense compared to net interest income of approximately \$65,000 for the same quarter last year. We earn interest income on our cash balances and incur interest expense on borrowings from our revolving line of credit. The decline in interest income and increase in interest expense is the result of a lower cash balance and lower interest rates earned on our cash investments combined with the interest expense on borrowings from our revolving credit facility. As of March 31, 2009, we had borrowings of \$1.5 million outstanding under the revolving line of credit. The interest rate on such revolving line of credit as of March 31, 2009 was variable based on the prime rate plus 100 basis points, which was 5% at March 31, 2009.

### **Income Taxes**

We recorded no income tax benefit or expense for the three months ended March 31, 2009 compared with a tax benefit of approximately \$699,000 for the same quarter last year.

As of March 31, 2009, we had a deferred tax asset of approximately \$9.2 million, which is unchanged from December 31, 2008. This asset is primarily composed of net operating loss carry forwards (NOLs). These NOLs are available to offset against any federal and state purposes, and expire starting in 2018 through 2028.

In order to fully realize the net deferred tax asset, we will need to generate sufficient taxable income in future years prior to the expiration of our NOLs. SFAS No. 109, "*Accounting for Income Taxes*" requires us to analyze all positive and negative evidence to determine if, based on the weight of available evidence, we are more likely than not to realize the benefit of the net deferred tax asset. The recognition of the net deferred tax asset and related tax benefit is based upon our conclusions regarding, among other considerations, estimates of future earnings based on information currently available, current and anticipated customers, contracts and product introductions, as well as recent operating results during 2008, 2007 and 2006, and certain tax planning strategies.

We have evaluated the available evidence and the likelihood of realizing the benefit of our net deferred tax asset. From the evaluation, we established a valuation allowance against our deferred tax assets totaling approximately \$372. We cannot presently estimate what, if any, changes to the valuation of its deferred tax asset may occur in the future. If we incur future losses, it may be necessary to record additional valuation allowance related to the deferred tax asset recorded as of March 31, 2009.

### **Inflation and Changing Prices**

Inflation and changing prices for the three months ended March 31, 2009 did not have a material impact on our operations.

## **Liquidity and Capital Resources**

For the three months ended March 31, 2009, net cash used in operating activities totaled approximately \$508,000, compared to approximately \$2.1 million used in operating activities for the same quarter last year. Cash used in operating activities in the first quarter of 2009 was largely the result of a net loss totaling approximately \$867,000 compared with a net loss of approximately \$1.4 million for the same quarter last year, as well as increases in net trade receivables totaling \$595,000 compared with a decrease of \$109,000 for the same quarter last year. Also, during the first quarter 2009, we recorded \$431,000 in capitalized software. Comparatively, no capitalized software was recorded in the same quarter last year. Net inventories for the first quarter of 2009 decreased approximately \$733,000 primarily due to a slowing of manufacturing material purchases. For the same quarter last year, net inventories were higher by approximately \$827,000 due to lower than anticipated sales. Deferred tax assets for the first quarter 2009 did not change, while for the same quarter last year deferred tax assets increased by approximately \$699,000 as a result of the tax benefit associated with our pretax loss. Depreciation and amortization totaled approximately \$107,000 for the quarter ended March 31, 2009, compared with \$88,000 for the same quarter last year.

Cash used in investing activities was primarily to fund the acquisition of assets pertaining to the development of our new digital products. Capital expenditures for the quarter ended March 31, 2009 were approximately \$320,000 compared with approximately \$82,000 for the same quarter last year. We anticipate that future capital expenditures will be funded through our existing cash balance and operating cash flow.

We have a secured revolving credit facility with Silicon Valley Bank (SVB). The SVB facility provides borrowing availability of up to \$3.5 million and is governed by a loan and security agreement entered into between us and SVB. The facility is available on a revolving basis during the period that commenced on October 23, 2008 and ending on October 22, 2010. Under the terms and conditions of the loan and security agreement for the facility, advances are generally subject to customary borrowing conditions, including the accuracy of representations and warranties, compliance with financial maintenance and restrictive covenants and the absence of events of default. For additional information about the terms and conditions of the loan and security agreement, reference is made to Note 5 (Debt) of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Advances under the facility bear interest at a variable rate equal to the prime rate, in effect from time to time, plus 100 basis points, subject to a reduction of 50 basis points anytime our quarterly net income is greater than \$1.0 million. Under the terms and conditions of the loan and security agreement for the facility, advances may be prepaid in whole or in part without premium or penalty. Under the terms and conditions of the loan and security agreement for the facility, our obligations are secured by substantially all of our assets, principally accounts receivable and inventory. We were in compliance with all covenants under the loan and security agreement as of the date of this report. As of March 31, 2009, we had \$1.5 million of borrowings outstanding under the facility and approximately \$403,000 of additional borrowing availability.

Our cash balance at March 31, 2009 was approximately \$4.6 million. We believe these funds combined with anticipated cash generated from operations and borrowing availability under our secured revolving credit facility with SVB are sufficient to meet our working capital requirements for the next twelve months. However, although we do not anticipate needing additional capital in the near term, the current financial crisis and adverse economic conditions may limit our access to credit and impair our ability to raise capital, if needed, on acceptable terms or at all. In addition, we face a number of other risks related to the financial crisis that may impact our business, liquidity and financial condition. For a description of these risks, see "Item 1A. Risk Factors—"We face a number of risks related to the financial crisis" set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

## **Critical Accounting Policies**

In response to the SEC's financial reporting release, FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we have selected for disclosure our revenue recognition process and our accounting processes involving significant judgments, estimates and assumptions. These processes affect our reported revenues and current assets and are therefore critical in assessing our financial and operating status. We regularly evaluate these processes in preparing our financial statements. The processes for determining the

allowance for collection of trade receivables, the reserves for excess or obsolete inventory, and the accounting for software costs involve certain assumptions and estimates that we believe to be reasonable under present facts and circumstances. These estimates and assumptions, if incorrect, could adversely impact the Company's operations and financial position. Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 includes a detailed discussion of these critical accounting policies.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We may be subject to the risk of fluctuating interest rates in the ordinary course of business for borrowings under our revolving credit facility, which bears interest at a variable rate based on the prime rate, in effect from time to time, plus 100 basis points. As of March 31, 2009, we had \$1.5 million outstanding under the facility.

### **Item 4T. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer (who serves as our principal financial and accounting officer) have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of March 31, 2009. Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of March 31, 2009.

#### **Changes in Internal Control over Financial Reporting**

During the first quarter ended March 31, 2009, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Securities Exchange Act Rules 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II- OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to Note 10 of the Company's Condensed Consolidated Financial Statements included elsewhere in this report for the information required by this Item.

### Item 6. Exhibits

- Exhibit 31.1 Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).
- Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).

**SIGNATURES**

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

**RELM WIRELESS CORPORATION  
(The “Registrant”)**

Date: May 6, 2009

By: \_\_\_\_\_  
David P. Storey  
President and Chief Executive Officer  
(Principal executive officer and duly  
authorized officer)

Date: May 6, 2009

By: \_\_\_\_\_  
William P. Kelly  
Executive Vice President and  
Chief Financial Officer  
(Principal financial and accounting  
officer and duly authorized officer)

## Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K).

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, David P. Storey, Chief Executive Officer of RELM Wireless Corporation, certify that:

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

Date: May 6, 2009

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David P. Storey  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, William P. Kelly, Executive Vice President and Chief Financial Officer of RELM Wireless Corporation, certify that:

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

Date: May 6, 2009

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William P. Kelly  
Executive Vice President and  
Chief Financial Officer

RELM WIRELESS CORPORATION

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

In connection with the Quarterly Report of RELM Wireless Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Storey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

RELM Wireless Corporation

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David P. Storey  
President and Chief Executive Officer

May 6, 2009

RELM WIRELESS CORPORATION

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

In connection with the Quarterly Report of RELM Wireless Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William P. Kelly, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

RELM Wireless Corporation

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William P. Kelly  
Executive Vice President and Chief Financial Officer

May 6, 2009