

# RESEARCH PROFILE

# RELM WIRELESS CORPORATION

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www.relm.com

### INVESTMENT DATA:

Traded ..... American Stock Exchange	Symbol ..... "RWC"
Recent Price ..... \$0.80	52-Week High: ..... \$3.29
Fiscal Year Ends ..... Dec. 31	Low: ..... \$0.42
Shares Outstanding ..... 13,410,871	Beneficial Insider Ownership ..... 19%
Est. Float (shs.) ..... 12,000,000	Institutional Ownership ..... 19%
Total Mkt. Value ..... \$10.7 Mil.	Avg. Daily Volume (shs.) ..... 46,000
Net Working Cap/Sh. .... \$1.38	Diluted Earnings (Loss) Per Share:
Price/Net Working Cap. .... 0.6X	12 Mos Ended 9/30/08 ..... (\$0.14)
Book Value Per Sh. .... \$1.98	Rev. 12 Mos. Ended 9/30/08... \$20.2 Mil.
Price/Book Value ..... 0.4X	Price//TTM Revenues ..... 0.5X

The global credit crisis and financial turmoil in recent months have caused the stock market to go into a tailspin and decimated the market price of many small-cap stocks, creating tremendous buying opportunities for investors with intermediate- to long-term time horizons. We believe that RELM Wireless Corporation ("RELM", "RWC" or "the Company") represents such an opportunity. The share price of this debt-free company has declined 43% since our previous Research Profile was published in September 2008. The stock is currently selling at a 60% discount to book value and for 58% of net working capital, while the Company's total "market cap" is equivalent to only 53% of trailing 12-month revenues. Although RELM was unprofitable during the first nine months of 2008 (third quarter was profitable), we believe the Company is well-positioned to increase its sales and earnings significantly over the next several years as it leverages the potential of its latest-generation products to significantly increase its "addressable share" of the \$5 billion land mobile radio ("LMR") market. A 60-year-old company that designs, manufactures and markets high quality two-way radio communications equipment, RELM has the potential to address large market opportunities as federal, state and local government and public safety agencies (1) migrate from analog to digital technology, (2) seek to comply with post-9/11 federal government initiatives for communications interoperability among first responders and other agencies, and (3) try to cope with tight budgets in a weak economic environment. As one of the most cost-effective manufacturers, we believe RELM enjoys the highest gross profit margins in the LMR industry. With a strong balance sheet and prospects for improving sales and profitability as new product lines gain traction in the market, the Company should attract the attention of an expanding investor audience in 2009, and we believe RWC shares have the potential to significantly outperform the overall stock market over the next 12-18 months.



### CONDENSED BALANCE SHEET (Unaudited)\* September 30, 2008 (\$000)

Current Assets .....	\$22,000*	Current Liabilities .....	\$3,460
Property & Equip., net .....	1,432		
Deferred Tax Assets .....	5,359		
Software & Other Assets .....	1,245	Shareholders' Equity .....	26,576
<b>TOTAL .....</b>	<b>\$30,036</b>	<b>TOTAL .....</b>	<b>\$30,036</b>

\* Includes \$4.9 million in cash and cash equivalents.

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## INVESTMENT HIGHLIGHTS

- We believe RELM Wireless is positioned to capitalize upon a large market opportunity due to the ongoing migration from analog to digital technology in the \$5 billion North American land mobile radio (“LMR”) market. Digital radios generate significantly higher gross profit margins than analog products.
- During recent months, the Company has begun introducing its next-generation KNG series of feature-rich, high-performance, price-competitive, small digital radios that are compliant with the APCO Project 25 (P25) standard. The new KNG radio series will significantly expand the number of federal, state, tribal, and local government agencies (e.g., Department of Homeland Security, Department of Defense, forestry, police, fire, EMS) that RELM can target with its products.
- RELM Wireless, which currently commands less than a 1% share of the \$5 billion LMR market, produces high-performance radios that are priced significantly below the product prices of the industry leader. This should provide compelling value to government agencies operating under tight budget restrictions during the current recessionary economic environment.
- While RELM accomplished a dramatic earnings turnaround during the first half of the current decade, profitability has suffered during the past couple of years due to (1) reduced government agency spending on radios and other equipment, and (2) costs associated

with the development of a new line of P25-compliant products. We believe unanticipated delays in the introduction of RELM’s new products also had a negative impact on new orders during the first nine months of 2008. The Company recently introduced the first VHF and UHF products in its new BK Radio high-performance KNG series of P25 digital radios, with 700/800 MHz radios, trunking capabilities and supporting products to follow in the next few months. These new products should significantly expand RELM’s “addressable” share of the LMR market.

- With a debt-free balance sheet and over \$4.9 million of cash in the bank (as of 9/30/08), we believe RELM should have little problem financing its strategic growth initiatives for the foreseeable future.
- The Company has significantly reduced corporate overhead and other expenses in recent months, thereby lowering its annualized “breakeven” revenue level to an estimated \$20 million. RELM returned to profitability (after three consecutive unprofitable quarters) in the three months ended 9/30/08, when net income approximated \$337,000 (\$0.02 per share) on net sales of \$5.8 million.
- Insider buying of RWC shares has increased significantly in recent weeks. During the September-November 2008 period, at least five officers and/or directors purchased stock in the open market, at prices ranging from \$0.50 to \$1.35 per share.
- At their recent price of \$0.80 on the American Stock Exchange, RWC

shares are selling 93% below their 2006 high of \$11.40. The current price-to-book-value multiple approximates 0.4X, the Company’s “market cap” of \$10.7 million is equivalent to only 53% of trailing-twelve-month revenues, and the stock is currently selling for only 58% of net working capital. Pummeled by the worst bear market in small-cap stocks in the past half-century, we believe RWC’s current share price presents a very attractive opportunity for investors with a 12-18 month time horizon.

- During the four years ended 12/31/07, RELM generated EBITDA margins averaging 16.2% of sales, without leveraging its balance sheet at all. The Company earned \$0.24 per diluted share in 2006 and \$0.13 in 2007. Although RWC will be unprofitable in 2008, it would not appear unrealistic to assume that EPS could recover to \$0.20-\$0.30 (annualized) within the next 12-24 months as new products gain traction in the marketplace. If such operating performance is realized, a multiple of 12X earnings or 1.5X book value would support a stock price 200% or more above current levels.

## COMPANY BACKGROUND

RELM Wireless Corporation, which is traded on the American Stock Exchange under the symbol “RWC” and headquartered in West Melbourne, Florida, has been in business for more than 60 years. RELM is one of many companies in the Land Mobile Radio (LMR) industry, which represents a \$5 billion market in North America. The Company designs, manufactures, and markets wireless communications products consisting of

two-way land mobile radios, repeaters, base stations, and related components and subsystems.

Two-way land mobile radios can be units that are hand-held (portable) or installed in vehicles (mobile). Repeaters expand the range of two-way land mobile radios, enabling them to operate over a wider area. Base station components and subsystems are installed at radio transmitter sites to improve performance by enhancing the signal and reducing or eliminating signal interference and enabling the use of one antenna for both transmission and reception.

RELM employs both analog and digital technologies in its products. **Its digital technology is compliant with the Project 25 standard of the Association of Public Communications Officials (APCO Project 25 or P25) and meets the requirements of the Department of Homeland Security, Department of Defense and other federal agency directives requiring interoperability of communications among first responders, law enforcement, and other public safety agencies.**

The Company offers products under three brand names:

*BK Radio* products consist of high-specification land-mobile radio equipment that is used by professional radio operators, primarily in government and public safety applications. The *BK Radio* line has the most extensive features/capabilities and includes the Company's P25-compliant digital products. During the past few months, the first two products in the Company's new line of high performance, feature-rich *BK Radio* KNG P25 digital radios have been released for sale. **We**

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***“RELM’s new products will operate in higher frequency ranges of the spectrum, which will open up even bigger markets, adding perhaps three billion dollars of greater opportunity.”***

John Gay, Editor  
 “The Quiet Investor”  
 Email: quietinvestor@flash.net

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**believe this new product line will expand the Company’s annual “addressable market” by as much as \$3 billion by opening the door to major metropolitan law enforcement agencies, large fire departments, and an expanding number of federal government agencies and military departments.**

*RELM*-branded products provide basic, inexpensive, yet feature-rich and reliable two-way communications for commercial and industrial users, such as hotels, construction firms, schools, and taxicab/limousine companies. Typical users are not radio professionals and require easy, fast, inexpensive communication among a defined group of users.

*RELM/BK* products are professional-grade in performance and durability with a wide range of features in small packages at affordable prices. These products provide an effective migration path from the Company's *RELM*-branded products to its highest-specification *BK Radio* products.

This broad line of products provides superior value and performance to a wide array of customers with demanding requirements, including emergency (e.g., fire and EMS departments), public safety (e.g., forestry, police) and military customers; other

federal, state and local government agencies; and commercial, industrial and institutional organizations. **RELM's products excel in applications involving harsh and hazardous conditions, while delivering high-specification performance, durability and reliability at a low cost relative to competitive offerings.**

RELM Wireless, one of the most cost-efficient manufacturers in the LMR industry, effectively leverages outside contract manufacturing relationships and internal resources for the production of its radios and product components. The utilization of experienced, high-quality contract manufacturers provides greater production specialization and expertise, higher levels of flexibility and responsiveness, and faster delivery of product, while allowing the Company to focus on its core technological competencies of product design and development. RELM has also designed its next-generation products on a common platform, thereby improving operational efficiencies and reducing inventory requirements.

The success of this business strategy, which was implemented by RELM's current management team several years ago, resulted in a dramatic earnings turnaround at the Company during the years 2002 to

2006. RELM's operating income improved to \$6.4 million in 2006 from an operating loss of \$3.3 million in 2002. **Even more impressive was the improvement in gross profit margins during the past decade, from 14.0% in 1997 to 53.9% in 2006 (gross margins narrowed to 51.2% in 2007 and 48.2% in the first nine months of 2008, but recovered to 50.7% in the quarter ended 9/30/08).** We believe RELM's gross margins are among the highest in the LMR industry, which is quite an achievement for a company that prices its products below most of its competition and as much as 50% below the market leader.

THE OPPORTUNITY

We believe RELM Wireless Corporation has the potential to grow its annual sales and earnings at an impressive rate over the next several years, due primarily to several trends that are impacting the LMR industry. Investors should keep in mind that the Company's quarterly financial results are highly unpredictable due to the fact that the majority of its sales are to government agencies that operate on differing fiscal years and under budget constraints wherein land mobile radio purchases must compete with other agency priorities for funding. **As a result, orders and shipments can fluctuate significantly from one quarter to the next.** However, the Company's annualized performance appears well-positioned to benefit from the following trends within the \$5 billion North American LMR industry:

➤ **Migration from analog to digital technology.** As in many other industries, a conversion is underway from analog to digital technology in the LMR industry. More specifically, federal, state and local government agencies are primarily purchasing land mobile radios that are compliant with the APCO Project 25

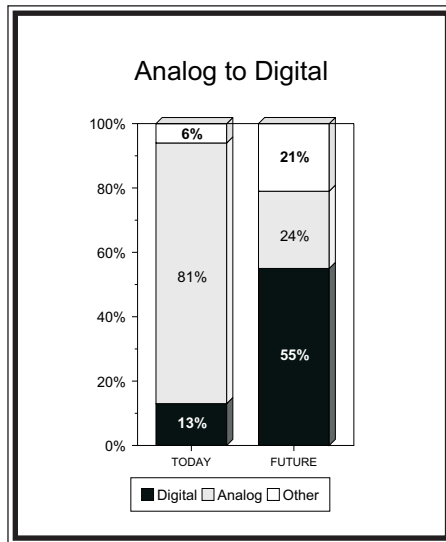


Figure 1 - Source: RELM Investor Presentation

standard that was established in 1995. This is particularly important for RELM Wireless, because approximately 82% of the Company's total sales in 2007 were derived from the government and public safety market, where its radios are used by military, fire, rescue, forest service, law enforcement and emergency medical personnel. P25-compliant digital radios are more efficient than analog radios in the way they use available radio spectrum, and they utilize an "open architecture" design, which promotes competition among LMR manufacturers. **Because RELM generates substantially higher gross profit margins from its expanding line of P25-compliant radios than from analog products, we believe government agency conversion from analog to digital technology has very positive implications for the Company's future profitability.** With less than 15% of all land mobile radios currently in use being digital in design (see chart above), we believe the migration towards digital technology will

continue for the next several years and could eventually result in over 50% of new LMR sales being digital. While some business/industrial users will continue to favor analog technology due to its lower cost, we believe most state and federal government agencies will switch to P25 radios as they expand and upgrade their radio networks.

➤ **Focus on Interoperability of Communications Among First Responders and Other Public Safety Agencies.** LMR radios that were manufactured under the old APCO 16 standard, many of which are still used by government agencies, are unable to "talk" to radios that were made by another manufacturer. This was painfully evident during the 9/11 terrorist attacks in 2001 and in the aftermath of Hurricane Katrina in August 2005, when many first responders and disparate public safety agencies were unable to communicate with each other over their portable and mobile radios during times of crisis when thousands of lives were at risk. As a result of these communications failures, and in order to assure the "interoperability" of land mobile radios among first responders and public safety agencies, the Department of Homeland Security (DHS) has effectively mandated that DHS grants for LMR equipment allocated to its sub-agencies be used to purchase only P25-compatible products. In addition, both the Department of Interior (DOI) and the Department of Agriculture (USDA) have adopted the P25 standard, and state, local and tribal agencies that rely upon federal funding must purchase P25 radios unless compelling reasons for not using such equipment exist. **We believe DHS initiatives will continue to accelerate the adoption of digital P25-compliant technology for many**

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**“RELM Wireless has always been defined by terms like durability and value. With the new P25 KNG series, we’re returning premium specifications and performance to the list. With greater range, enhanced audio quality, longer battery life, more intuitive programming and functionality, these products will make it possible for us to serve broad new groups of customers for the first time.”**

David Storey, CEO  
RELM Wireless Corporation  
2007 Annual Report

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years to come, because there is still a massive installed base of government agency analog radios that will have to be converted to digital. As an example, a report by the Office of the Inspector General (OIG) concluded that 73% of the 4,163 radio system sites used by the Department of Justice are so old that they are no longer supported by the manufacturer.

- **Expansion in “addressable market”.** Historically, RELM’s sales potential has been limited by the fact that its digital radios operated only on VHF frequencies, which are used by a limited number of public safety agencies (e.g., state and federal forest services are among the Company’s largest customers). During the next two years, the Company will introduce sixteen new P25 products that we believe will offer very cost-effective LMR solutions to an expanded customer set. These products will include smaller, lighter, high-performance digital radios that are upgradable, immersible and will challenge the market leaders. **Management has estimated that its new products will expand the Company’s**

**“addressable market” by up to \$3 billion annually by targeting large metropolitan police and fire departments, federal and international defense agencies, and other users of two-way radios that operate on UHF and 700/800 megahertz frequencies.**

#### Summary & Conclusion

RELM has an aggressive new product development program underway to expand its offerings of P25-compliant radios that meet the needs of additional government departments and agencies, thereby expanding the Company’s “addressable” market within the LMR industry. **With growing government pressure (including DHS funding requirements) for federal, state, local and tribal public safety agencies to upgrade to P25 digital radio equipment, RELM is well-positioned, as a low-cost and very price competitive producer, to expand its sales in the “public” sector of the LMR market.**

With current annual sales below \$25 million, RELM’s share of the \$3 billion-plus

“addressable market” is less than 1%. Management’s goal is to capture at least 5% of an expanded addressable market within the next several years. Since most of its growth would involve digital products, which generate gross margins of 70%+ (vs. less than 40% for analog products), we would expect annualized earnings to increase at an even faster pace than sales, on average, during the next decade. **If the Company were to succeed in achieving its goals, RELM’s sales could exceed \$150 million within the next several years, and we believe RWC shares would provide an outstanding return to shareholders during the interim period.**

As the Company completes its “roll out” of new products in coming months, we expect sales to strengthen from the disappointing levels that have prevailed during the past several quarters. **With a business model that offers significant operating leverage as sales improve, this should lead to a recovery in profitability during 2009 and in future years, thereby allowing RWC shares to significantly outperform the overall stock market during the upcoming 12-18 months. We view the stock as significantly undervalued at its current price of \$0.80 per share, which is equivalent to 40% of book value, 53% of trailing twelve-month revenues, and only 58% of net working capital.**

We are particularly impressed with the number of insiders who have purchased RWC shares in the open market during the past several weeks. Since early September, at least five officers and/or directors have purchased stock in the open market, at prices ranging from \$0.50 to \$1.35 per share.

## RECENT DEVELOPMENTS

We consider several recent developments significant in terms of the outlook for RELM Wireless Corporation and its common stock as an attractive investment opportunity during the next several years.

➤ **On November 25, 2008, RELM announced that it has been named as a contractor under a blanket purchase agreement (“BPA”) from the U.S. General Services Administration.** This BPA will be used by various federal government agencies for the purchase of analog and digital radio equipment, conventional and trunked, operating in the VHF, UHF and 700/800 MHz frequency bands. The total estimated value of the BPA is \$500 million over a maximum term of five years. The BPA named a select group of companies, including RELM, that meet established technical criteria, and it does not specify purchase dates or quantities of equipment from any particular supplier. *“We are pleased to be named as a contractor in this critical federal contract,”* noted RELM’s Chief Executive Officer in a related news release. *“We anticipate that it will be the principal vehicle for two-way radio equipment procurements by a wide range of agencies, including many in our traditional strongholds of the U.S. Departments of Interior and Agriculture. **Importantly, this BPA makes available to federal government agencies all of our new KNG products, as well as the long-trusted D-Series and G-Series lines.** Being named as a contractor in this BPA, we believe, should facilitate our plans for customer expansion and revenue growth.”*

➤ **On November 5, 2008, RWC announced its operating results for the third quarter and first nine months of**

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***“Although the business climate is difficult, we continue to believe that our growing line of new digital products with competitive advantages, combined with a reduced cost structure, will strengthen and position RELM for future success.”***

RELM CEO David Storey  
News Release 11/5/08

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**2008.** While the Company reported an operating loss and lower sales than in the first nine months of the previous year, significant “bottom line” improvements were noted in the third quarter when compared with the first half of 2008. **The Company reported net income of \$337,000, or \$0.02 per diluted share, in the quarter ended 9/30/08, compared with net losses in the previous three quarters.**

*“We are pleased to report an operating profit for the third quarter,”* stated David Storey, CEO of RELM Wireless, in a related news release. *“This was achieved as a result of completing certain product development initiatives, combined with aggressive cost-reduction actions and a solid mix of high-margin digital product sales for the quarter. The cost-reduction actions enabled us to reduce SG&A expenses by over \$1 million (30%) from the preceding quarter. P25 digital products comprised almost 50% of our total third quarter sales, versus 41.8% of our total second quarter sales and 34.6% of our total first quarter sales.”* Mr. Storey concluded his remarks as follows: *“Although the business climate is difficult, we continue to believe that our growing line of new digital products with competitive advantages, combined with a reduced cost structure, will strengthen and position RELM for future success.”*

➤ **On October 28, 2008, RELM announced the closing of a \$3.5 million revolving line of credit with Silicon Valley Bank.** *“We are pleased to reestablish our longstanding relationship with Silicon Valley Bank and to secure a credit facility to provide, if needed, additional capital to execute our strategic business plans and growth initiatives, including the continued expansion of our next-generation KNG P25 digital product line,”* stated the Company in a related news release. *“Additionally, considering the current credit environment, this financing package indicates Silicon Valley Bank’s confidence in our operations and plans for future growth and success.”*

➤ **Also on October 28, 2008, the Company announced its entry into the market for P25 digital UHF (380-470 MHz band) radios with the introduction of the KNG P400.** Like its sister VHF product, the KNG P150 introduced earlier this year, the KNG P400 is designed with the demanding needs of professional applications in mind, providing customers with compact, lightweight radios that are feature-rich and offer class-A performance specifications. The KNG P400 is the smallest professional grade 5-watt UHF portable digital radio in

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**“We believe that over the next few years these new products will expand our addressable market by an incremental \$3 billion, of which we believe we should be able to capture at least a 5% market share.”**

David Storey, CEO  
RELM Wireless Corporation  
2007 Annual Report

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*riding the back of our VHF strength in the Public Safety Market with our successful DPHX and DMH product lines. To approach Greatness, we must go on the offense. This path entails the aggressive development of 16 new APCO P25 products over the next two years that we anticipate will propel the Company to a new level of LMR solutions to an expanded customer set, and result in greater, more predictable growth while dropping more profits to the bottom line. We believe that over the next few years these new products will expand our addressable market by an incremental \$3 billion, of which we believe we should be able to capture at least a 5% market share.”*

## THE OUTLOOK

Under the direction of David Storey as CEO, RELM Wireless achieved a dramatic earnings turnaround in the first half of the current decade, as the Company improved its manufacturing efficiencies and developed more effective sales, marketing and product development initiatives. This turnaround is evident in the figures below:

For the fiscal year ended December 31, 2007, RELM's earnings declined to \$1.8 million, or \$0.13 per diluted share, on net sales

Table 1

	2002	2006
Sales (000)	\$15,978	\$32,445
Gross Margin	26.4%	53.9%
Operating Income (Loss)	(3,333 )	6,435
Pretax Income (Loss)	(\$3,631 )	\$5,925
E.P.S. (Diluted)	(\$0.47 )	\$0.24

the market. “Our new KNG product line is the foundation upon which our growth and future will be built,” observed David Storey, CEO of RELM Wireless, in a related news release. “RELM has never before offered P25 digital radios in the UHF band, a circumstance that has precluded us from participating in that lucrative segment of the market. **The P400 opens to RELM significant opportunities in such agencies as the Departments of Defense and Homeland Security, as well as in law enforcement, among others.** Soon to follow will be products in the 700/800 MHz range, further expanding our entry into markets never before addressed by RELM. All KNG products provide top performance and a wide selection of features at industry-best prices. This represents a critically important combination of advantages that we believe prospective new customers will find attractive, especially considering the budget challenges facing many government and public safety agencies today.”

➤ **On June 18, 2008, RELM Wireless Corporation announced the release of the first product in its new BK Radio high-performance KNG series of P25 digital radios.** Designed with the demanding needs of professional

applications in mind, including public safety, law enforcement and the military, the KNG-P150 is available to customers seeking compact and lightweight radios with class-A performance specifications. “This is an important combination considering that other P25 products have challenged the budgets of many organizations,” stated David Storey, President and CEO of RELM Wireless Corporation, in a related news release. “The KNG-P150, and its soon-to-be-released counterparts in the KNG series, combine P25 technology and affordability with the top-tier features and performance for which RELM's BK Radio line is known.”

➤ In a Letter to Shareholders published in RELM's 2007 Annual Report, CEO David Storey noted, “During the past seven years, we have been playing defense,

of approximately \$27.0 million, and the deterioration in sales and earnings continued during 2008. The decrease in sales and earnings has been primarily due to a sluggish government and public safety market, which comprises the Company's largest customer segment. **However, the Company's gross profit margins of 51.2% and 48.2% in 2007 and the first nine months of 2008, respectively, are still believed to rank among the highest in the land mobile radio industry.**

As noted above, sales continued weak during the nine months ended September 30, 2008, when the Company reported a net loss of (\$1.3 million), or (\$0.10) per share, on revenues of \$15.6 million. However, RELM reported a modest profit of \$337,000 in the third quarter of 2008, compared with net losses in the previous three quarters, reflecting cost-reduction initiatives and an improvement in product mix (digital radio sales approximated 50% of total revenues in the third quarter, versus 41.8% and 34.6% of sales in the second and first quarters, respectively). Operating results during the first nine months of 2008 included higher-than-normal product development expenses, reflecting initiatives to accelerate the introduction of RELM's next-generation KNG line of P25 digital products. **Although RELM recorded only modest sales from its new KNG product line during the quarter ended September 30, 2008 (the first of the new products, the KNG-P150, was released for shipment in mid-June 2008), we expect incremental sales from new products to increasingly benefit RWC's operating and financial performance during 2009.**

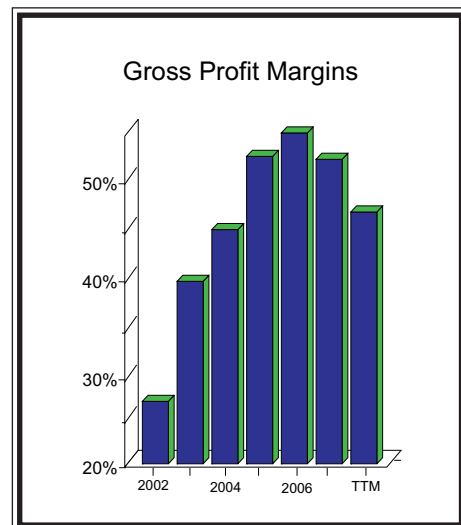
As we noted earlier in this report, investors must recognize that the majority of RELM's sales are derived from federal,

state, local and tribal government agencies, and the Company's orders can fluctuate significantly from quarter to quarter depending upon fiscal year cycles and budget constraints within such agencies. **While the Company reported lower sales, when compared with prior-year periods, during six of the past seven quarters, we are confident that an upward trend in sales and earnings will be evident in coming years as customers continue to shift from analog to digital technology and as RELM expands its "addressable" share of the \$5 billion North American land mobile radio market via the introduction of new P25 and other radios with features that appeal to government, commercial, industrial and institutional customers.**

While RELM management does not provide any forward-looking guidance to the investment community, we believe the Company has the potential to greatly increase its sales and earnings over the next several years as it expands its share of a growing addressable market for LMR products.

In our opinion, RELM should have little difficulty accessing the financial resources to support the operational and product development activities necessary to accomplish its strategic and financial objectives in coming years. As of September 30, 2008, the Company had \$4.9 million of cash in the bank, and no outstanding debt. **Unless management decides to embark upon an aggressive acquisition program, we believe RELM should generate cash faster than it can be deployed in its current business once sales return to more normal levels.**

At the end of the third quarter of 2008, RELM's current ratio stood at a healthy



6.4-to-1.0 (current assets = \$22.0 million vs. current liabilities = \$3.5 million). Meanwhile, the Company's capital structure consisted of no outstanding debt and \$26.6 million in shareholders' equity (equivalent to \$1.98 per share).

## INVESTMENT CONSIDERATIONS

In our opinion, RELM Wireless Corporation is pursuing a growth strategy that should prove to be highly effective, delivering outstanding value to shareholders over the next several years.

RWC shares have been under pressure during the past two years and are currently trading 93% below their 2006 high of \$11.40. Given the benefit of hindsight, the Company's stock price probably soared too high during the 2003-2006 period, reaching levels that left no room for even temporary disappointment (propelled by "momentum" investors towards the end), in response to the impressive earnings turnaround that resulted from a restructuring of RELM's business model by the current management team. However, today we believe the

### Largest Institutional Shareholders

Wentworth Hauser & Volich  
 Benchmark Capital  
 White Pine Capital  
 Dimensional Fund Advisors  
 Renaissance Technologies LLC

opposite situation exists, wherein investors have focused solely on recently disappointing sales and earnings trends, thereby driving RWC shares to levels far below the “intrinsic” value of the Company, especially in light of the sales and earnings potential of the next-generation KNG line of digital radios that are currently entering the market. **We believe the recent share price of \$0.80 represents a highly attractive opportunity for intermediate- and long-term investors to establish or add to their RWC holdings.**

At \$0.80, RWC shares are trading at very low valuations relative to book value, sales, net working capital, and “normalized” earnings. **From a balance sheet perspective, the current stock price is equivalent to only 40% of book value and 58% of net working capital (mostly inventories and receivables from government agencies). The Company’s market cap of \$10.7 million is equivalent to only 53% of trailing 12-month revenues of \$20.2 million, and the current stock price approximates only 3.3X the Company’s 2006 earnings per diluted share of \$0.24, which we consider a more “normal” level of profitability than the \$0.13 per share recorded in 2007 and the net loss anticipated in 2008 (the stock is trading at 6.2X 2007 EPS).**

We believe the following represent some of the industry trends and characteristics of RELM Wireless Corporation that will serve as the foundation for substantial improvement in annualized sales, earnings, and share price over the next 12-18 months and longer-term.

- *The Company is believed to generate the highest gross profit margins in its industry, and such margins should expand as sales recover in 2009 and future years.*
- *RELM should realize significant operating leverage benefits as its sales recover, allowing earnings to rebound much faster than revenues in coming years.*
- *The Company sells its radios at prices substantially less than most competitors (including the industry leader) with comparable product quality and features. This should appeal to budget-conscious government agencies during the current recessionary economy.*
- *Aggressive development of new high-performance P25 digital radios and accessories should allow the Company to expand its annual “addressable” market by up to \$3 billion in coming years.*
- *The current installed base of analog radios being used by public safety agencies is aging and will have to be replaced in the next several years.*
- *As a low-cost manufacturer with high quality products and very competitive prices, RELM should be able to substantially increase its share (currently less than 1%) of the \$5 billion North American LMR market.*
- *Migration of LMR industry from analog to digital technology has positive*

*implications for RELM’s future gross profit margins (digital product gross margins typically exceed 70% vs. less than 40% for analog products).*

- *Federal government requirements for “interoperable” communications capabilities among first responders and other public safety agencies should allow RELM to compete more effectively against the Motorola and other entrenched land mobile radio manufacturers that have higher cost and product price structures.*
- *Strong operating leverage and a debt-free balance sheet provide RELM with considerable strategic and financial flexibility to pursue initiatives that can enhance shareholder values.*

While we are not prepared to publish specific earnings estimates in this report, the following exercise illustrates the sort of potential that we envision for RELM.

Let us assume that, sometime within the next five years, RELM is able to (1) expand its “addressable” portion of the domestic LMR market to \$3 billion; (2) capture a 3.5% share of this addressable market; (3) increase its average gross profit margins to 58%; (4) reduce its SG&A expense ratio to 37%, or approximately the levels achieved in 2006; and (5) maintain its diluted share base at less than 15 million shares. In the context of this scenario, sometime within the next five years RELM could be earning \$14 million, or over \$0.90 per diluted share, on sales of \$105 million. If we further assume that RWC shares would command a P/E ratio of 15X, the Company’s financial performance could support a stock price of around \$13.00. While this exercise is, of course, hypothetical, we believe the underlying assumptions are not unrealistic.

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***“RELM just reinvented itself, practically overnight. Next-generation product lines are now in place to drive sustainable growth for many years to come, with the clearest competitive edge RELM Wireless has ever known since its founding in 1947.”***

RELM Wireless Corporation Website

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**Should potential of this magnitude become apparent to investors as the Company’s new high-performance KNG radio line gains sales traction and/or new contracts are announced, we would expect RWC shares to substantially**

**outperform the overall stock market during the upcoming 12-18 months.**

There are currently 13.4 million common shares outstanding, and we estimate the public “float” at approximately 12.0

million shares. Insiders beneficially own about 19% of the Company, while approximately 17 institutions own 19% of the outstanding shares. The widespread phenomenon of institutional investors having to liquidate their positions in many small-cap stocks during recent months has been quite evident in RELM’s case, as institutional ownership has declined from 24% to 19% of the Company since August 2008. Daily trading volume has averaged 46,000 shares during the past three months. The stock is listed on the American Stock Exchange under the symbol “RWC”.

*R. Jerry Falkner, CFA  
December 15, 2008*

**RELM WIRELESS CORPORATION**  
Selected Operating Results  
(Dollars in thousands, except per-share data)

<i>Year Ended December 31<sup>st</sup></i>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<b>12 Mos Ended</b> <u>9/30/08</u>
Net Sales	\$20,656	\$28,519	\$32,445	\$26,976	\$20,161
Operating Income (Loss)	1,924	5,524	5,608	2,268	(3,236)
Pretax Income (Loss)	1,660	5,527	5,925	2,817	(2,992)
Income Tax (Expense) Benefit	6,217	4,765	(2,498)	(971)	1,301
Net Income (Loss)	\$7,877	\$10,292	\$3,427	\$1,846	\$(1,691)
Diluted E.P.S. (Loss)	\$0.65	\$0.75	\$0.24	\$0.13	\$(0.13)
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Non-GAAP Information:					
Fully-taxed Net Income (Loss)					
(assumes 42% tax rate)	\$963	\$3,205	\$3,427	\$1,690	\$(1,691)
<b><u>Fully-taxed Diluted E.P.S.</u></b>	<b><u>\$0.08</u></b>	<b><u>\$0.23</u></b>	<b><u>\$0.24</u></b>	<b><u>\$0.12</u></b>	<b><u>\$(0.13)</u></b>

Additional information on the Company can be found on the Internet at:

<http://relm.com>  
[www.rjfalkner.com](http://www.rjfalkner.com)

This Research Profile contains "forward-looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, reliance on contract manufacturers, heavy reliance on sales to the U.S. Government; federal, state and local budget deficits and spending limitations; limitations on available radio spectrum; general economic and business conditions; changes in customer preferences; competition; changes in technology; changes in business strategy; the Company's debt and inventory levels; quality of management; business abilities and judgment of the Company's personnel; the availability, terms and deployment of capital, and other risks discussed in the Company's periodic report filings with the Securities and Exchange Commission. By making these forward-looking statements, RJ Falkner & Company, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

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