

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## RELM WIRELESS CORP

**Form: 10-K**

**Date Filed: 2014-03-05**

Corporate Issuer CIK:	2186
Symbol:	RWC
SIC Code:	3663
Fiscal Year End:	12/31

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

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

**RELM WIRELESS CORPORATION**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State of other jurisdiction of  
incorporation or organization)

**001-32644**  
(Commission  
file number)

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

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

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

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

Title of Class  
Common Stock, par value \$.60

Name of each Exchange on Which Registered  
NYSE MKT

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2013, based on the closing price of such stock on the NYSE MKT on such date, was \$28,852,731.

As of February 24, 2014, 13,626,304 shares of the registrant's Common Stock were outstanding.

**Documents Incorporated by Reference:** Portions of the registrant's definitive proxy statement for its 2014 annual stockholders' meeting are incorporated by reference in Part II (Item 5(d)) and in Part III (Items 10-14) of this report. The registrant's definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2013.

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## PART I

### Item 1. Business.

#### General

RELM Wireless Corporation ("RELM" or the "Company") provides two-way radio communications equipment of high quality and reliability.

In business for over 65 years, RELM (NYSE MKT: RWC) 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. We employ both analog and digital technologies in our products.

Our digital technology is compliant with the Project 25 standard of the Association of Public Communications Officials ("APCO Project 25," or "P-25"). Our P-25 digital products and our analog products function in the VHF (136MHz – 174MHz), UHF (380MHz – 470MHz, 450MHz – 520MHz) and 700-800 MHz bands. Our P-25 KNG Series mobile and portable digital radios have been validated under the P-25 Compliance Assessment Program ("CAP") as being P-25 compliant and interoperable with the communications network infrastructure of six of our competitors. We believe CAP validation of interoperability demonstrates the position of our KNG Series mobile and portable digital radios as viable and attractive alternatives for federal, state and local emergency response agencies who use such competitors' communications network infrastructure, even though we do not provide our own communications network infrastructure.

We offer products under two brand names: BK Radio and RELM. Generally, BK Radio-branded products serve the government and public safety market, while RELM-branded products serve the business and industrial market.

BK Radio-branded products consist of high-specification land-mobile radio equipment for professional radio users primarily in government and public safety applications. These products have more extensive features and capabilities than those offered in the RELM line. Our P-25 digital products are marketed under the BK Radio brand, which includes the next-generation KNG product line.

RELM-branded products provide basic yet feature-rich and reliable two-way communications for commercial and industrial concerns, such as hotels, construction firms, schools, and transportation services. Typically these users are not radio professionals, and require easy, fast and affordable communication among a defined group of users.

We provide superior products and value to a wide array of customers with demanding requirements, including, for example, emergency response, public safety, homeland security and military customers of federal and state government agencies, as well as various commercial enterprises. Our two-way radio products excel in applications with harsh and hazardous conditions. They offer high-specification performance, durability and reliability at a low cost relative to comparable offerings.

Our principal executive offices are located at 7100 Technology Drive, West Melbourne, Florida 32904 and our telephone number is (321) 984-1414.

#### Available Information

Our Internet website address is [www.relm.com](http://www.relm.com). We make available on our Internet website free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports as soon as practicable after we electronically file and/or furnish such material with or to the Securities and Exchange Commission. In addition, our Code of Business Conduct and Ethics, Audit Committee Charter and Corporate Governance Guidelines are available at our website. The information contained on our website is not incorporated by reference in this report. A copy of any of these materials may be obtained, free of charge, upon request from our investor relations department. All reports the Company files with or furnishes to the SEC also are available free of charge via the SEC's electronic data gathering and retrieval ("EDGAR") system available through the SEC's website at <http://www.sec.gov>. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10 a.m. to 3 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

## Industry Overview

Land mobile radio ("LMR") communications consist of hand-held (portable) and vehicle mounted (mobile) two-way radios commonly used by the public safety sector (e.g., police, fire, and emergency responders), commercial business concerns (e.g., corporate disaster recovery, hotels, airports, farms, transportation service providers, and construction firms), and government agencies within the United States and abroad. LMR systems are constructed to meet an organization's specific communication needs. The cost of a complete system can vary widely depending on the size and configuration. Likewise, the cost of radio sets can range from under \$100 for a basic analog portable, to thousands of dollars for a fully featured P-25 digital unit. Typically, there are no recurring airtime usage charges. Accordingly, LMR usage patterns are considerably different from those for cellular and other wireless communications tools. LMR usage is characterized by frequent calls of short duration. A typical user may transmit and receive 20 to 50 calls per day, with most calls lasting less than 30 seconds. The average useful life of a unit can vary, depending upon the application in which the unit is deployed and its handling.

LMR systems are the most widely-used and longest-used form of wireless dispatch communications in the United States, having been first placed in service in 1921. LMR was initially used almost exclusively by law enforcement, and all radio communications were transmitted in an analog format. Analog transmissions typically consist of a voice or other signal modulated directly onto a continuous radio carrier wave. Over time, advances in technology decreased the cost of LMR products and increased their popularity and usage by businesses and other agencies. To respond to the growing usage, additional radio frequency spectrum was allocated by the Federal Communications Commission ("FCC") for LMR use.

More recently the LMR industry has been characterized by slow growth, reflecting several factors:

- LMR is a mature industry, having been in existence for over 90 years;
- some LMR users are in mature industry segments that have experienced slow growth rates;
- funding and budgets for government and public safety agencies have been reduced; and
- growth has been hampered by the lack of available radio frequency spectrum, which has prevented existing users from expanding their systems and hindered efforts of many potential new users from obtaining licenses for new systems.

Years ago, as a result of the limited spectrum availability, the FCC mandated that new LMR equipment utilize technology that is more spectrum-efficient. This effectively meant that the industry had to migrate to digital technology. Responding to the mandate, the Association of Public Safety Communications Officials ("APCO"), in concert with several LMR manufacturers, including RELM, recommended a standard for digital LMR devices that would meet the FCC spectrum-efficiency requirements and provide solutions to several problems experienced primarily by public safety users. The standard is called Project 25. The primary objectives of Project 25 are to: (i) allow effective and reliable communication among users of compliant equipment, regardless of its manufacturer, known as interoperability, (ii) maximize radio spectrum efficiency, and (iii) promote competition among LMR providers through an open system architecture.

Although the FCC does not require public safety agencies or any radio users to purchase P-25 equipment or otherwise adopt the standard, compliance with the standard is a primary consideration for government and public safety purchasers. Accordingly, although funding for LMR purchases by many government agencies is limited, we anticipate that demand for P-25 equipment will ultimately increase and fuel greater LMR market growth as users upgrade equipment to achieve interoperability and comply with FCC narrow-banding mandates. Presently, the migration to P-25 equipment is primarily limited to government and public safety agencies. Radio users in the business and industrial market continue to utilize predominantly analog LMR products.

By some estimates, the North American LMR market for infrastructure and subscriber units is approximately \$5 billion in annual sales. Presently, the market is dominated by one supplier, Motorola Solutions, Inc. However, the open architecture of the P-25 standard is designed to eliminate the ability of one or more suppliers to lock out competitors. Formerly, because of proprietary characteristics incorporated in many analog LMR systems, a customer was effectively precluded from purchasing additional LMR products from a supplier other than the initial supplier of the system. Additionally, the system infrastructure technology was prohibitive for smaller suppliers to develop. P-25 provides an environment in which users will increasingly have a wider selection of LMR suppliers, including smaller suppliers such as RELM.

## Description of Products and P-25 CAP Compliance

We design, manufacture, and market wireless communications equipment consisting of two-way land mobile radios, repeaters, base stations, and related components and subsystems. We do not provide complete, integrated, communications systems and infrastructure. 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 communicate over a wider area. Base station components and subsystems are installed at radio transmitter sites to improve performance by enhancing the signal, reducing or eliminating signal interference and enabling the use of one antenna for both transmission and reception.

We employ both analog and digital technologies in our products. Our digital products are compliant with P-25 specifications. Our P-25 digital products and our analog products function in the VHF (136MHz – 174MHz), UHF (380MHz – 470MHz, 450MHz – 520MHz) and 700-800 MHz bands.

Our P-25 KNG Series mobile and portable digital radios have been validated under the P-25 Compliance Assessment Program (“CAP”) as being P-25 compliant and interoperable with the communications network infrastructure of six of our competitors. We believe CAP validation of interoperability should enhance the position of our KNG Series mobile and portable digital radios as viable and attractive alternatives for federal, state and local emergency response agencies who use such competitors’ communications network infrastructure, even though we do not provide our own communications network infrastructure.

The P-25 Compliance Assessment Program is a voluntary program that allows land mobile radio equipment suppliers to formally demonstrate their products’ compliance with P-25 requirements. The purpose of the program is to provide federal, state and local emergency response agencies with evidence that the communications equipment they are purchasing satisfies P-25 standards for performance, conformance, and interoperability. The program is a result of legislation passed by the U.S. Congress to improve communication interoperability for first responders and is a partnership of the Department of Homeland Security’s (“DHS”) Command, Control and Interoperability Division, the National Institute of Standards and Technology, radio equipment manufacturers, and the emergency response community.

To assist the emergency response community with selecting interoperable communications equipment, DHS provides the Responder Knowledge Base (“RKB”) website, an integrated, online source of information on products, standards, certifications, grants, and other equipment-related information. Manufacturers must submit a Supplier’s Declaration of Compliance and Summary Test Report for inclusion on the site. These documents provide a means of verifying that federal grant dollars are being invested in standardized solutions and equipment that promotes interoperability. Information on our KNG Series mobiles and portables is available on the RKB site.

## Description of Markets

### *Government and Public Safety Market*

The government and public safety market includes the military, fire, rescue, law enforcement, homeland security and emergency responder personnel. In most instances, BK Radio-branded products serve this market and are sold either directly to end-users, or through two-way communications dealers. Government and public safety sales represented approximately 94%, 93% and 93% of our total sales for 2013, 2012 and 2011, respectively.

Government and public safety users currently use products that employ either P-25 digital or analog technology. However, public safety users in federal, state and local government agencies and certain other countries are migrating to digital P-25 products. The evolution of the standard and compliant digital products is explained in the **Industry Overview** section starting on page 2 of this report.

### **Business and Industrial Market**

This market includes enterprises of all sizes that require fast and affordable, push-to-talk communication among a discrete group of users such as corporate disaster recovery, hotels, construction firms, schools, and transportation service providers. Users in this market continue to predominantly utilize analog products. We offer products to this market under the RELM brand name. Our sales in this market may be direct to end-users or to dealers and distributors who then resell the products. Our sales to this market represented approximately 6%, 6% and 7% of our total sales for 2013, 2012 and 2011, respectively.

### **Engineering, Research and Development**

Our engineering and product development activities are conducted by a team of 16 employees combined with contract engineering resources. Their primary development focus has been the design of our line of next generation P-25 digital products, the KNG Series, and related capabilities. The first models in the KNG line were introduced in 2008 and are included on our primary federal contract vehicles. Subsequently we added UHF and 800MHz products, as well as P-25 trunking and TDMA (Time Division Multiple Access).

Our first P-25 digital product, named the DPH, was introduced to the market in 2003. Shortly thereafter, the DPH was added to the contract to supply agencies of the U.S. Department of the Interior with digital two-way communications equipment.

A segment of our engineering team is responsible for product specifications based on customer requirements and supervising quality assurance activities. They also have primary responsibility for applied engineering, production engineering and the specification compliance of contract manufacturers.

For 2013, 2012 and 2011, our engineering and development expenses were approximately \$3.9 million, \$3.7 million and \$4.4 million, respectively.

### **Intellectual Property**

We presently have no United States patents in force. We hold several trademarks related to the names "RELM" and "BK Radio" and certain product names. We also rely on trade secret laws and employee and third party non-disclosure agreements to protect our intellectual property rights.

### **Manufacturing and Raw Materials**

Our manufacturing strategy is to utilize the highest quality and most cost effective resources available for every aspect of our manufacturing. Consistent with that strategy, for many years we have successfully utilized outside contract arrangements for different segments of our manufacturing operations. These arrangements, some of which are with offshore concerns, have been managed and updated to meet our present requirements, and they continue to be instrumental in controlling our product costs, allowing us to improve our competitive position and manage our gross margins.

Contract manufacturers produce various subassemblies and products on our behalf. Generally, the contract manufacturers procure raw materials from RELM-approved sources and complete manufacturing activities in accordance with our specifications. Original Equipment Manufacturer ("OEM") agreements and purchase orders govern the business relationship with the contract manufacturers. These agreements and purchase orders have various terms and may be renewed or modified upon agreement by both parties. Their scope may also be expanded to include new products in the future.

We plan to continue utilizing contract manufacturing where it furthers our business objectives. This strategy allows us to focus on our core technological competencies of product design and development, and to reduce the substantial capital investment required to manufacture our products. We also believe that our use of experienced, high-volume manufacturers will provide greater manufacturing specialization and expertise, higher levels of flexibility and responsiveness, and faster delivery of product, all of which contribute toward minimized product costs. To ensure that products manufactured by others meet our quality standards, our production and engineering team works closely with our ISO 9002 industry-qualified contract manufacturers in all key aspects of the production process. We establish product specifications, select the components and, in some cases, the suppliers. We retain all document control. We also work with our contract manufacturers to improve process control and product design, and conduct periodic on-site inspections.

We rely upon a limited number of both domestic and foreign suppliers for several key products and components. We place purchase orders from time to time with these suppliers and have no guaranteed supply arrangements. In addition, we obtain certain components from a single source. During 2013, 2012 and 2011, our operations were not materially impaired due to delays from single source suppliers. However, the absence of a single source component could potentially delay the manufacture of finished products. We manage the risk of such delays by securing secondary sources and redesigning products in response to component shortages or obsolescence. We strive to maintain strong relations with all our suppliers. We anticipate that the current relationships, or others that are comparable, will be available to us in the future.

#### Seasonal Impact

We experience seasonality in our quarterly results in part due to governmental customer spending patterns that are influenced by government fiscal year budgets and appropriations. We also experience seasonality in our quarterly results in part due to our concentration of sales to federal and state agencies that participate in fire-suppression efforts, which are typically the greatest during the summer season when forest fire activity is heightened. In some years, these factors may cause an increase in sales for the second and third quarters compared with the first and fourth quarters of the same fiscal year. Such increases in sales may cause quarterly variances in our cash flow from operations and overall financial results.

#### Significant Customers

Sales to the United States Government represented approximately 34%, 39% and 52% of our total sales for the years ended December 31, 2013, 2012 and 2011, respectively. These sales were primarily to various government agencies, including those within the United States Department of Defense ("DOD"), the United States Forest Service ("USFS") and the United States Department of the Interior ("DOI").

#### Backlog

Our backlog of unshipped customer orders was approximately \$2.5 million, \$2.3 million and \$1.5 million as of December 31, 2013, 2012 and 2011, respectively.

#### Competition

We compete with many domestic and foreign companies primarily in the North American market. One dominant competitor, Motorola Solutions, Inc., is estimated to have well in excess of half the market for LMR products. We compete by capitalizing on our advantages and strengths, which include price, product quality, and customer responsiveness.

#### Employees

As of December 31, 2013, we had 87 full-time employees, most of whom are located at our West Melbourne, Florida facility; 46 of these employees are engaged in direct manufacturing or manufacturing support, 16 in engineering, 16 in sales and marketing, and 9 in headquarters, accounting and human resources activities. Our employees are not represented by any collective bargaining agreements, nor has there ever been a labor-related work stoppage. We believe our relations with our employees are good.

#### Information Relating to Domestic and Export Sales

The following table summarizes our sales of LMR products by customer location:

	2013	2012	2011
	(in Millions)		
United States	\$ 26.4	\$ 26.2	\$ 22.5
International	0.6	1.4	1.6
Total	\$ 27.0	\$ 27.6	\$ 24.1

Additional financial information is provided in the financial statements at pages F-1 through F-17.

**Item 1A. Risk Factors**

*Various portions of this report contain forward-looking statements that involve risks and uncertainties. Actual results, performance or achievements could differ materially from those anticipated in these forward-looking statements as a result of certain risk factors, including those set forth below and elsewhere in this report. These risk factors are not presented in the order of importance or probability of occurrence.*

***Our industry is characterized by rapidly changing technology***

Our business could suffer if we are unable to keep pace with rapid technological changes and product development in our industry. The market for our LMR products is characterized by ongoing technological development, evolving industry standards and frequent product introductions. The LMR industry is experiencing a transition from analog LMR products to digital LMR products. In addition, the APCO Project 25 standard is being increasingly adopted.

***We depend on the success of our LMR product line***

We currently depend on our LMR products as our sole source of sales. A decline in the price of and/or demand for LMR products, as a result of competition, technological change, the introduction of new products by us or others or a failure to manage product transitions successfully, could have a material adverse effect on our business, financial condition and results of operations. In addition, our future success will largely depend on the successful introduction and sale of new digital LMR products. Even if we successfully develop these products, the development of which is a complex and uncertain process requiring innovation and investment, we cannot guarantee that they will achieve market acceptance.

***We are engaged in a highly competitive industry***

We face intense competition from other LMR suppliers, and the failure to compete effectively could materially and adversely affect our market share, financial condition and results of operations. The largest supplier of LMR products in the world, Motorola Solutions, Inc., currently is estimated to have well in excess of half the market for LMR products. This supplier is also the world's largest supplier of P-25 products. Some of our competitors are significantly larger and have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we have. Some also have established reputations for success in developing and supplying LMR products, including providing complete, integrated, communications systems and infrastructure. We do not provide complete, integrated, communications systems and infrastructure. These advantages may allow them:

- to be more attractive to customers who desire a single source supplier and provider of LMR products;
- to respond more quickly to new or emerging technologies and changes in customer requirements which may render our products obsolete or less marketable;
- to engage in more extensive research and development;
- to undertake more far-reaching marketing campaigns;
- to be able to take advantage of acquisitions and other opportunities;
- to adopt more aggressive pricing policies; and
- to be more attractive to potential employees and strategic partners.

Many of our competitors have established extensive networks of sales locations and multiple distribution channels, and thus enjoy a competitive advantage over us in these areas as well. We may not be able to compete successfully and competitive pressures may materially and adversely affect our business, results of operations and financial condition.

An increase in the demand for P-25 products could benefit competitors who are better financed and have inventories on-hand that will meet such demand. P-25 products have been brought to the market by an increasing number of our competitors. Our first P-25 portable radio was brought to market in 2003, and in recent years we introduced a new line of P-25 products, the KNG Series, and have since expanded the product line. Bringing such products to market and achieving a significant market penetration for them will continue to require time and expenditures of funds. There can be no assurance that we will be successful in developing and marketing, on a timely basis, fully functional product enhancements or new products that respond to these and other technological advances, or that our new products will be accepted by customers. An inability to successfully develop and/or market products could have a material adverse effect on our business, results of operations and financial condition.

***We face a number of risks related to the current economic conditions***

Current economic conditions in the United States and elsewhere remain uncertain. These uncertain economic conditions could materially and adversely impact our business, liquidity and financial condition in a number of ways, including:

- ***Potential Deferment or Reduction of Purchases by Customers*** Significant budget deficits and limited appropriations confronting our federal, state and local government customers may cause them to defer or reduce purchases of our products. Furthermore, uncertainty about current and future economic conditions may cause customers to defer purchases of our products in response to tighter credit and decreased cash availability.
- ***Customers' Inability to Obtain Financing to Fund their Operations*** Some of our customers require substantial financing in order to fund their operations. Insolvencies of our customers could materially and adversely impact our business and financial condition.
- ***Negative Impact from Increased Financial Pressures on Third-Party Dealers and Distributors*** We make sales to certain of our customers through third-party dealers and distributors. If credit pressures or other financial difficulties result in insolvencies of these third parties and we are unable to successfully transition the end customers to purchase our products from other third parties, or directly from us, it could materially and adversely impact our operating results and financial condition.
- ***Limited Access by Us to Credit and Capital*** Although we do not anticipate needing additional capital in the near term, the credit markets may limit our access to credit and impair our ability to raise capital, if needed, on acceptable terms or at all.

***The availability of our credit facility is conditioned upon our being in compliance with certain covenants***

We have a \$5.0 million secured credit facility with Silicon Valley Bank ("SVB"). As of December 31, 2013 and as of the date of this report, there were no borrowings outstanding under the facility. The loan and security agreement, as amended, governing the credit facility contains certain financial maintenance and restrictive covenants. Failure to comply with any of these covenants would constitute an event of default that would permit SVB to accelerate repayment of any outstanding borrowings at the time of occurrence. We are currently in compliance with all covenants. However, there is no assurance that we will be able to comply with the covenants in the future or, in the event we fail to do so, that we will be able to either obtain a waiver from SVB or refinance the credit facility in a timely manner on acceptable terms or at all.

***We depend on a limited number of manufacturers and on a limited number of suppliers of components to produce our products***

We contract with manufacturers to produce portions of our products and our dependence on a limited number of contract manufacturers exposes us to certain risks, including shortages of manufacturing capacity, reduced control over delivery schedules, quality assurance, production yield and costs. If any of our manufacturers terminate production or cannot meet our production requirements, we may have to rely on other contract manufacturing sources or identify and qualify new contract manufacturers. The lead-time required to qualify a new manufacturer could range from approximately two to six months. Despite efforts to do so, we may not be able to identify or qualify new contract manufacturers in a timely and cost effective manner and these new manufacturers may not allocate sufficient capacity to us in order to meet our requirements. Any significant delay in our ability to obtain adequate quantities of our products from our current or alternative contract manufacturers could have a material adverse effect on our business, financial condition and results of operations.

In addition, our dependence on limited and sole source suppliers of components involves several risks, including a potential inability to obtain an adequate supply of components, price increases, late deliveries and poor component quality. Approximately 53.1% of our material, subassembly and product procurements in 2013 were sourced from one supplier. Disruption or termination of the supply of these components could delay shipments of our products. The lead-time required for orders of some of our components is as much as six months. In addition, the lead-time required to qualify new suppliers for our components is as much as six months. If we are unable to accurately predict our component needs, or if our component supply is disrupted, we may miss market opportunities by not being able to meet the demand for our products. This may damage our relationships with current and prospective customers and, thus, have a material adverse effect on our business, financial condition and results of operations.

***We depend heavily on sales to the U.S. Government***

We are subject to risks associated with our reliance on sales to the U.S. Government. For the year ended December 31, 2013, approximately 34% of our sales were to agencies and departments of the U.S. Government. These sales were primarily to agencies of the DOD, USFS, DOI and the DHS. There can be no assurance that we will be able to maintain this government business. Our ability to maintain our government business will depend on many factors outside of our control, including competitive factors, changes in government personnel making contract decisions, spending limits, and political factors. The loss of sales to the U.S. Government would have a material adverse effect on our business, financial condition and results of operations.

In addition, most U.S. Government customers award business through a competitive bidding process, which results in greater competition and increased pricing pressure. The bidding process involves significant cost and managerial time to prepare bids for contracts that may not be awarded to us. Even if we are awarded contracts, we may fail to accurately estimate the resources and costs required to fulfill a contract, which could negatively impact the profitability of any contract awarded to us. In addition, following a contract award, we may experience significant expense or delay, contract modification or contract rescission as a result of customer delay or our competitors protesting or challenging contracts awarded to us in competitive bidding.

***We have deferred tax assets that we may not be able to utilize under certain circumstances***

If we incur future operating losses, we may be required to provide some or all of our deferred tax assets with a valuation allowance, resulting in additional non-cash income tax expense. The change in the valuation may have a material impact on future results. If we do not achieve sufficient federal taxable income in future years to utilize all or some of our net operating loss carry forwards, they will expire.

***Retention of our executive officers and key personnel is critical to our business***

Our success is largely dependent on the personal efforts of our President and Chief Executive Officer, our Chief Financial Officer, and our Chief Technology Officer, as well as other key executives and employees. We do not have employment agreements with these individuals, and we cannot be sure that we will retain their services. We carry key-man life insurance of \$5.0 million on the life of our President and Chief Executive Officer. Notwithstanding such life insurance, the loss of services from any of our executive officers or these other key employees due to any reason whatsoever could have a material adverse effect on our business, financial condition and results of operations.

Our success is also dependent upon our ability to hire and retain qualified operations, development and other personnel. Competition for qualified personnel in our industry is intense. There can be no assurance that we will be able to hire or retain necessary personnel. The inability to attract and retain qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to manage our growth***

Acquisitions and other business transactions may disrupt or otherwise have a negative impact on our business and results of operations. We do not have any acquisitions currently pending, and there can be no assurance that we will complete any future acquisitions or other business transactions or that any such transactions which are completed will prove favorable to our business. We intend to seek stockholder approval for any such transactions only when so required by applicable law or regulation. We hope to grow rapidly, and the failure to manage our growth could materially and adversely affect our business, operations and financial condition. Our business plan contemplates, among other things, leveraging our products and technology for growth in our customer base and sales. This growth, if it materializes, could significantly challenge our management, employees, operations and financial capabilities. In the event of this expansion, we have to continue to implement and improve our operating systems and to expand, train, and manage our employee base. If we are unable to manage and integrate our expanding operations effectively, our business, results of operations and financial condition could be materially and adversely affected.

***We are subject to government regulation***

Failure to comply with government regulations applicable to our business could result in penalties. Our products are regulated by the FCC and otherwise subject to a wide range of global laws. As a public company, we are subject to regulations of the Securities and Exchange Commission. We believe that we are in substantial compliance with all applicable federal regulations governing our business and we believe that we have obtained all licenses necessary for the operation of our business. Compliance with existing or future laws could subject us to future costs or liabilities, impact our production capabilities, constrict our ability to sell, expand or acquire facilities, restrict what products and services we can offer, and generally impact our financial performance. Failure to comply with these requirements and regulations or to respond to changes in these requirements and regulations could result in penalties on us such as fines, restrictions on operations or a temporary or permanent closure of our facility. These penalties could have a material adverse effect on our business, operating results and financial condition. In addition, there can be no assurance that we will not be materially and adversely affected by existing or new regulatory requirements or interpretations.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act directed the SEC to implement disclosure requirements concerning public companies' use and sourcing of "conflict minerals" mined in the Democratic Republic of Congo and adjoining countries. The SEC rules issued in August 2012 necessitate a complex compliance process and related administrative expense for a company once it determines a conflict mineral is necessary to the functionality or production of a product that the company manufactures or contracts to manufacture. Such companies must then conduct a reasonable country of origin inquiry to determine if the conflict minerals originated in the covered countries and undertake due diligence on the source and chain of custody in order to file a conflict minerals report with the SEC, which we are required to file by May 31, 2014. In addition to the increased administrative expense and management involvement as we navigate the aspects of the new requirements that apply to us, we may face a limited pool of suppliers who can provide us "conflict-free" components, parts and manufactured products, and we may not be able to obtain conflict-free products or supplies in sufficient quantities or at competitive prices for our operations. Also, since our supply chain is complex, we may face reputational challenges with our customers, stockholders and other stakeholders if we are unable to sufficiently verify the origins for any conflict minerals used in the products that we sell.

***We engage in business with manufacturers located in other countries***

We engage in business with manufacturers located in other countries. Approximately 72.2% of our material, subassembly and product procurements in 2013 were sourced internationally. Accordingly, we are subject to special considerations and risks not typically associated with companies operating solely in the United States. These include the risks associated with the political, economic and legal environments, among others. Our business, operating results and financial condition may be materially and adversely affected by, among other things, changes in the political and social conditions in foreign countries in which we maintain sourcing relationships, and changes in government policies with respect to laws and regulations, anti-inflation measures and method of taxation.

***We carry substantial quantities of inventory***

We carry a significant amount of inventory to service customer requirements in a timely manner. If we are unable to sell this inventory over a commercially reasonable time, in the future we may be required to take inventory markdowns, which would reduce our net sales and/or gross margins. In addition, it is critical to our success that we accurately predict trends in customer demand, including seasonal fluctuations, in the future and do not overstock unpopular products or fail to sufficiently stock popular products. Both scenarios could materially harm our business, operating results and financial condition.

***We rely on a combination of contract, trademark and trade secret laws to protect our intellectual property rights***

Currently, we hold no United States patents. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors and customers, and limit access to and distribution of our proprietary information. We also rely on trade secret laws to protect our intellectual property rights. Although we believe that trademark protection, trade secret laws and non-disclosure agreements should prevent another party from manufacturing and selling competing products or otherwise violating our intellectual property rights, there can be no assurance that the steps we have taken to protect our intellectual property rights will be successful. It may also be particularly difficult to protect our products and intellectual property under the laws of certain countries in which our products are or may be manufactured or sold.

***Our fluctuating quarterly operating results could cause volatility in our stock price***

Our quarterly operating results may fluctuate significantly from quarter to quarter and may be below the expectations of securities analysts and investors, resulting in volatility for the market price for our common stock. Other factors affecting the volatility of our stock price include:

- future announcements concerning us or our competitors;
- the announcement or introduction of technological innovations or new products by us or our competitors;
- changes in product pricing policies by us or our competitors;
- changes in earnings estimates by us or our competitors or by securities analysts;
- additions or departures of our key personnel; and
- sales of our common stock.

***Acts of war or terrorism could have a material adverse effect on our operations and financial condition***

Acts of war or terrorism (wherever located around the world) may cause damage or disruption to our business, employees, suppliers, manufacturers, and customers that could have a material adverse effect on our business, operations and financial condition. While we cannot predict what impact a prolonged war on terrorism will have on the United States economy, we plan to prudently manage expenses, while continuing to invest in our business and make capital expenditures when they will increase productivity, profitably, or sales.

***Any infringement claim against us could have a material adverse effect on our financial condition***

Although we believe our products and technology do not infringe on any proprietary rights of others, as the number of competing products available in the market increases and the functions of those products further overlap, the potential for infringement claims may increase. Any such claims, with or without merit, may result in costly litigation or require us to redesign the affected product to avoid infringement or require us to obtain a license for future sales of the affected product. Any of the foregoing could have a material adverse effect upon our business, results of operations and financial condition. Any litigation resulting from any such claim could require us to incur substantial costs and divert significant resources, including the efforts of our management and engineering personnel.

***Certain provisions in our charter documents and Nevada law may discourage a potential takeover***

Certain provisions of our articles of incorporation and Nevada law could discourage or prevent potential acquisitions of our company that stockholders may consider favorable. Our articles of incorporation authorize the issuance of 1,000,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Preferred stock could be issued, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our company, which could be unfavorable to our stockholders.

***We may not be able to maintain our NYSE MKT listing***

Our common stock has been listed on the NYSE MKT since 2005. There is no assurance that we will be able to satisfy the continued listing standards, which include, among others, minimum stockholders' equity, market capitalization, pre-tax income and per share sales price. If our common stock is de-listed, we would be forced to list our common stock on the OTC Bulletin Board or some other quotation medium, depending on our ability to meet the specific requirements of those quotation systems. Selling our common stock would be more difficult because smaller quantities of shares would likely be bought and sold and transactions could be delayed. These factors could result in lower prices and larger spreads in the bid and ask prices for shares of our common stock. If this happens, we will have greater difficulty accessing the capital markets to raise any additional necessary capital.

**Future sales of shares of our common stock may negatively affect our stock price and impair our ability to raise equity capital**

Approximately 4 million of our shares of outstanding common stock as of December 31, 2013 are owned by certain of our executive officers and directors and their affiliates, and may be resold publicly at any time subject to the volume and other restrictions under Rule 144 of the Securities Act of 1933. Approximately 71% of our outstanding shares of common stock as of December 31, 2013 are freely tradable without restriction.

Sales of substantial amounts of shares of our common stock, or even the potential for such sales, could lower the market price of our common stock and impair our ability to raise capital through the sale of equity securities.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We do not own any real estate. We lease approximately 54,000 square feet of industrial space at 7100 Technology Drive in West Melbourne, Florida. The lease, as amended, has an expiration date of June 30, 2020. Rental, maintenance and tax expenses for this facility were approximately \$477,000, \$475,000 and \$468,000 in 2013, 2012 and 2011, respectively. We also lease 8,100 square feet of office space in Lawrence, Kansas, to accommodate a segment of our engineering team. The lease has an expiration date of December 31, 2014. Rental, maintenance and tax expenses for this facility were approximately \$92,000 in 2013, 2012 and 2011, respectively.

**Item 3. Legal Proceedings**

From time to time we may be involved in various claims and legal actions arising in the ordinary course of our business. There were no pending material claims or legal matters as of December 31, 2013.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market For Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities**

(a) Market Information.

Our common stock trades on the NYSE MKT under the symbol "RWC." The following tables set forth the high and low closing sales price for our common stock for the quarterly periods for the years ended December 31, 2013 and 2012, as reported by the NYSE MKT.

**Common Stock**

	<u>High</u>	<u>Low</u>
<b>2013 Quarter Ended</b>		
First Quarter	\$ 2.27	\$ 1.65
Second Quarter	3.60	2.15
Third Quarter	4.00	2.39
Fourth Quarter	3.50	2.38
	<u>High</u>	<u>Low</u>
<b>2012 Quarter Ended</b>		
First Quarter	\$ 1.82	\$ 1.09
Second Quarter	1.77	1.28
Third Quarter	1.96	1.51
Fourth Quarter	1.82	1.50

(b) Holders.

On February 24, 2014, there were 964 holders of record of our common stock.

(c) Dividends.

We did not pay any cash dividends on our common stock during 2013 or 2012 and have no intention of doing so in the foreseeable future. The declaration and payment of cash dividends, if any, is subject to the discretion of our board of directors and final determination based upon its consideration of our operating results, financial condition and anticipated capital requirements, as well as such other factors it may deem relevant. In addition, our credit facility prohibits us from paying cash dividends on our common stock.

(d) Securities Authorized for Issuance under Equity Compensation Plans.

The information required by this item is incorporated by reference to our definitive proxy statement to be filed within 120 days of our fiscal year end in connection with the solicitation of proxies for our 2014 meeting of stockholders.

**Executive Summary**

Our operations for the year ended December 31, 2013 were profitable, yielding solid operating income, and generating positive cash flow. Our net income, however, declined compared with the prior year primarily due to lower sales and increased cost of products, while selling, general and administrative expenses decreased slightly. Overall, our financial position improved with an increase in cash, strengthened working capital and reduced inventory.

Net sales for 2013 totaled approximately \$27.0 million compared with \$27.6 million for the prior year, a decline of 2%. Sales gains with military and state and local public safety agencies were offset by lower sales to federal agencies, including our traditional strongholds in the U.S. Departments of Agriculture and Interior (USDA and DOI, respectively).

Gross profit margins as a percentage of sales in 2013 were 43.5%, compared with 47.4% for the prior year. The gross margins reflect lower total sales, a less favorable mix of products sold and reduced manufacturing volumes, which unfavorably impacted the utilization and absorption of our manufacturing overhead.

Selling, general and administrative expenses for 2013 decreased approximately \$66,000, or 0.6%, to approximately \$10.1 million compared with \$10.2 million last year. This decrease was attributed primarily to incentive compensation, partially offset by engineering and product development expenses.

We reported pretax income for 2013 of approximately \$1.7 million, compared with \$2.9 million last year. For 2013, we recognized income tax expense of \$0.5 million, compared with \$0.8 million last year. Our income tax expense for both years is largely non-cash, as a result of deferred items derived primarily from net operating loss carryforwards.

Net income for 2013 totaled approximately \$1.1 million (\$0.08 per basic and diluted share), compared with approximately \$2.1 million (\$0.15 per basic and diluted share) for the prior year.

As of December 31, 2013, working capital totaled approximately \$25.7 million, of which \$10.8 million was comprised of cash and trade receivables. This compares with working capital totaling approximately \$23.6 million at year end 2012, which included \$8.6 million of cash and trade receivables. Also, as of December 31, 2013 there were no borrowings outstanding under our revolving credit facility.

We experience seasonality in our quarterly results in part due to governmental customer spending patterns that are influenced by government fiscal year-end budgets and appropriations. We also experience seasonality in our quarterly results in part due to our concentration of sales to federal and state agencies that participate in fire-suppression efforts, which are typically the greatest during the summer season when forest fire activity is heightened. In some years, these factors may cause an increase in sales for the second and third quarters compared with the first and fourth quarters of the same fiscal year. Such increases in sales may cause quarterly variances in our cash flow from operations and overall financial condition.

## Results of Operations

As an aid to understanding our operating results, the following table shows items from our consolidated statements of operations expressed as a percentage of sales:

	Percent of Sales	
	for Years Ended December 31	
	2013	2012
Sales	100.0%	100.0%
Cost of products	(56.5)	(52.6)
Gross margin	43.5	47.4
Selling, general and administrative expenses	(37.4)	(36.9)
Net interest expense	(0.0)	(0.1)
Income before income tax expense	6.1	10.4
Income tax expense	(1.9)	(2.9)
Net income	4.2%	7.5%

### Fiscal Year 2013 Compared With Fiscal Year 2012

#### Sales, net

For 2013 net sales totaled approximately \$27.0 million compared with approximately \$27.6 million for the prior year. Sales of P-25 digital products in 2013 totaled approximately \$17.7 million (65.4% of total sales), compared with approximately \$17.9 million (65.0% of sales) for 2012.

During the year we experienced a decline in sales primarily from federal public safety customers, including our traditional legacy strongholds in the USDA and DOI, as agencies contended with funding constraints and operating budget uncertainties, including the temporary federal government shutdown and sequestration. This was partially recouped through sales gains with certain military customers as well as state and local public safety agencies. Also, on a comparative basis, the prior year benefitted from significant new business from some international and state and local sources that were not replicated in 2013.

During the year we made gains with customers and markets that were relatively new for us, including certain branches of the U.S. Departments of Defense and Homeland Security as well as several state and municipal agencies. Such gains were made possible by our expanded KNG line of products, technology and capabilities.

Looking forward, with some encouraging signs of improvement in the business climate, including the passage of a federal budget and a healthy pipeline of sales prospects that we are aggressively pursuing, we believe that RELM is well positioned for profitable sales growth as land mobile radio procurement activity increases.

#### Cost of Products and Gross Margins

Cost of products as a percentage of sales for 2013 was 56.5% compared with 52.6% in 2012.

Our cost of products and gross margins are primarily related to material and labor costs, product mix, manufacturing volumes and pricing. The cost of products and corresponding gross margins for 2013 reflected a less favorable mix of product sales as well as competitive pressure and a decline in total sales. Furthermore, manufacturing volumes decreased in 2013 compared with the prior year as a result of inventory reduction initiatives and reduced sales. Accordingly we did not fully absorb our base of manufacturing and support expenses.

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 costs. We anticipate that the current contract manufacturing relationships or comparable alternatives will be available to us in the future. We believe leveraging increased sales volumes and P-25 product sales, combined with manufacturing efficiencies, should yield gross margin improvements. We are likely to encounter product cost and competitive pricing pressures in the future; however, the extent of their impact on gross margins is uncertain.

#### *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 expenses and non-cash share-based employee compensation expense.

For 2013, SG&A expenses decreased approximately \$66,000 (0.6%) to approximately \$10.1 million, or 37.4% of sales, compared with approximately \$10.2 million, or 36.9% of sales, for the prior year.

Engineering and product development expenses for 2013 totaled approximately \$3.9 million (14.3% of sales) compared with approximately \$3.7 million (13.3% of sales) last year. The increase was attributable primarily to the amortization of capitalized software, compensation expenses and contract engineering resources pertaining to development initiatives.

Marketing and selling expenses for 2013 decreased by approximately \$216,000 (5.9%) to approximately \$3.5 million (12.8% of sales), compared with \$3.7 million (13.3% of sales) last year. The decrease in marketing and selling expenses related primarily to commissions and incentive compensation, which directly correlate with our sales performance.

General and administrative expenses for 2013 decreased by approximately \$36,000 (1.3%) to approximately \$2.8 million (10.4% of sales), compared with \$2.8 million (10.3% of sales) last year. The decrease was primarily attributed to incentive compensation expenses, which were partially offset by increases in public company and headquarters related expenses.

#### *Operating Income*

Operating income for 2013 totaled approximately \$1.6 million (6.1% of sales), compared with approximately \$2.9 million (10.5% of sales) for 2012. The decrease in operating income for the year was primarily the result of lower sales combined with increased cost of products.

#### *Interest Expense, net*

For 2013 we incurred no interest expense compared with interest expense of \$4,000 for the prior year. We incur interest expense on outstanding borrowings under our revolving credit facility and earn interest income on our cash balances. Our revolving credit facility was not utilized during 2013. The interest rate on our revolving credit facility as of December 31, 2013 was 4.0% per annum.

#### *Income Tax Expense*

We recorded income tax expense for 2013 of approximately \$0.5 million, compared with \$0.8 million last year. Our income tax expense and benefit are primarily non-cash.

As of December 31, 2013, our net deferred tax assets totaled approximately \$6.9 million, and are primarily composed of net operating loss carry forwards ("NOLs"). These NOLs total \$7.5 million for federal and \$15.1 million for state purposes, with expirations starting in 2018 through 2030.

In order to fully utilize the net deferred tax assets, we will need to generate sufficient taxable income in future years to utilize our NOLs prior to their expiration. ASC Topic 740, *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 assets. The recognition of the net deferred tax assets and related tax benefits is based upon our conclusions regarding, among other considerations, estimates of future earnings based on information currently available and current and anticipated customers, contracts and product introductions, as well as historical operating results and certain tax planning strategies.

We have evaluated the available evidence and the likelihood of realizing the benefit of our net deferred tax assets. From our evaluation we have concluded that based on the weight of available evidence, it is more likely than not that we will realize the benefit of our net deferred tax assets recorded at December 31, 2013. We cannot presently estimate what, if any, changes to the valuation of our deferred tax assets may be deemed appropriate in the future. If we incur future losses, it may be necessary to record a valuation allowance related to the deferred tax assets recognized as of December 31, 2013.

We account for income taxes using the asset and liability method specified by ASC Topic 740, "Income Taxes", as modified by ASC Topic 740-10-05. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply in the period in which the deferred tax asset or liability is expected to be realized. The effect of changes in net deferred tax assets and liabilities is recognized on our consolidated balance sheets and consolidated statements of income in the period in which the change is recognized. Valuation allowances are provided to the extent that it is more likely than not that some portion, or all, of deferred tax assets will not be realized. In determining whether a tax asset is realizable, we consider among other things, estimates of future earnings based on information currently available, current and anticipated customers, contracts and new product introductions, as well as recent operating results during 2013, 2012 and 2011, and certain tax planning strategies. If we fail to achieve the future results anticipated in the calculation and valuation of net deferred tax assets, we may be required to adjust our valuation allowance related to our deferred tax assets in the future.

**Fiscal Year 2012 Compared With Fiscal Year 2011**

*Sales, net*

Sales in 2012 increased \$3.5 million (14.4%) to approximately \$27.6 million compared with approximately \$24.1 million for the prior year. Sales of P-25 digital products in 2012 reached a record level, totaling approximately \$17.9 million (65.0% of total sales), compared with approximately \$15.4 million for 2011, an increase of \$2.5 million (16.5%).

The increase in total sales and P-25 digital sales compared with the prior year was attributed primarily to our P-25 digital products, including both legacy and new KNG models. The broad line of KNG products increased our addressable market by offering products in frequencies where we were previously unable to compete. Consequently, we were successful in realizing sales to new customers. These customers included agencies in state and local governments, as well as international organizations. They supplement our traditional strongholds in federal agencies, such as the U.S. Department of the Interior and the U.S. Forest Service. For 2012 the profile of our total sales was much broader with less reliance on any particular market segment or customer.

*Cost of Products and Gross Margins*

Cost of products as a percentage of sales for 2012 was 52.6% compared with 58.0% in 2011.

Our cost of products and gross margins are primarily related to material and labor costs, product mix, manufacturing volumes and pricing. The improvement in cost of products and corresponding gross margins for 2012 reflected a favorable mix of product sales weighted toward new KNG and legacy P-25 digital products. Additionally, we continued to better refine the production processes for new KNG products, which yielded lower unit costs. As a result of the increase in total sales relative to last year, manufacturing volumes increased. Accordingly, we more fully absorbed our base of manufacturing and support expenses.

During the year we continued to utilize contract manufacturing relationships to maximize production efficiencies and minimize material and labor costs. We regularly consider manufacturing alternatives to improve quality, speed and costs. As demonstrated during 2012, we believe leveraging increased sales volumes and P-25 product sales, combined with the aforementioned manufacturing improvements, can yield gross margin improvements.

*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 expenses and non-cash share-based employee compensation expense.

For 2012, SG&A expenses decreased approximately \$0.6 million (5.7%) to approximately \$10.2 million or 36.9% of sales, compared with approximately \$10.8 million or 44.7% of sales for the prior year.

Engineering and product development expenses for 2012 declined approximately \$728,000 (16.6%) compared with the prior year. The decrease was the result of expense reductions initially implemented during the second quarter of the prior year, and maintained thereafter, as some product development initiatives were completed.

Marketing and selling expenses for 2012 increased by approximately \$29,000 (0.8%) compared with the prior year. The increase in marketing and selling expenses related primarily to commissions and incentives, which directly correlate with the growth in sales. Those increases were partially offset by expense reductions initially implemented during the second quarter of the prior year and maintained thereafter.

General and administrative expenses for 2012 increased by approximately \$86,000 (3.1%) from the prior year. This increase was primarily related to additional headquarters and public company expenses.

#### *Operating Income (Loss)*

Operating income for 2012 totaled approximately \$2.9 million (10.5% of sales), compared with an operating loss of approximately \$653,000 (2.7% of sales) for 2011. Improvement in operating income for the year was primarily due to higher product sales combined with lower product and operating costs.

#### *Interest Expense, net*

For 2012, net interest expense totaled \$3,000, compared with \$106,000 for the prior year. We incur interest expense on outstanding borrowings under our revolving credit facility and earn interest income on our cash balances. Our revolving credit facility was largely unutilized during the year. Accordingly, very little interest expense was incurred. The interest rate on our revolving credit facility as of December 31, 2012 was 4.50% per annum.

#### *Income Tax Expense*

We recorded income tax expense for 2012 of approximately \$0.8 million, compared with an income tax benefit of \$273,000 the prior year. Our income tax expense and benefit are primarily non-cash.

As of December 31, 2012, our net deferred tax assets totaled approximately \$7.4 million and were primarily composed of NOLs. These NOLs total \$8.3 million for federal and \$17.8 million for state purposes, with expirations starting in 2017 through 2030.

In order to fully utilize the net deferred tax assets, we must generate sufficient taxable income in future years to utilize our NOLs prior to their expiration. Consistent with ASC Topic 740, *Income Taxes*, we evaluated the available evidence and the likelihood of realizing the benefit of our net deferred tax assets as of December 31, 2012, and from our evaluation we concluded that based on the weight of available evidence, it was more likely than not that we would not realize a portion of the benefit of our net deferred tax assets recorded at December 31, 2012. Accordingly, as of December 31, 2012, we maintained a valuation allowance totaling approximately \$14,000 for the portion of benefit of our federal and state deferred tax assets that more likely than not would not be realized.

#### **Changing Prices**

Changing prices for the years ended December 31, 2013, 2012 and 2011 did not have a material impact on our operations. The extent of competitive pricing pressure in the future and its impact is uncertain.

#### **Liquidity and Capital Resources**

For the year ended December 31, 2013, net cash provided by operating activities totaled approximately \$2.0 million compared with approximately \$4.6 million last year. The cash provided by operating activities for 2013 was primarily related to net income, depreciation and amortization, inventories and deferred tax assets. These items were partially offset by changes in prepaid expenses, accrued compensation and related taxes, deferred revenue and accounts payable. For the year ended December 31, 2013, we realized net income of approximately \$1.1 million compared with approximately \$2.1 million last year. Depreciation and amortization totaled approximately \$1.5 million for 2013, compared with \$1.4 million last year. Net inventories decreased during the year ended December 31, 2013 by approximately \$1.6 million as a result of inventory reduction initiatives. During 2012, net inventories increased by approximately \$1.3 million in anticipation of sales growth. Deferred tax assets for 2012 decreased by approximately \$0.5 million due to non-cash tax expense on our pretax income. This compared to a decrease of \$0.8 million for the prior year. Prepaid expenses and other current assets increased approximately \$1.0 million primarily related to purchase orders with suppliers. For the previous year, prepaid expenses and other assets increased approximately \$0.4 million. Accrued compensation and related taxes as of December 31, 2013 decreased by approximately \$0.7 million reflecting reduced incentive compensation related to sales and operating results. For the prior year, accrued compensation increased approximately \$0.7 million reflecting incentive compensation that was earned. Accounts receivable as of December 31, 2013 increased by approximately \$0.8 million related to sales that were consummated late in the year that had not yet completed the collection cycle. For the prior year accounts receivable decreased by approximately \$2.1 million as a result of collections. During 2013 deferred revenue decreased approximately \$0.3 million as revenue for extended warranties was recognized. For the prior year, deferred revenue increased approximately \$58,000. Accounts payable for the year decreased approximately \$0.2 million due to payments to suppliers. Last year accounts payable decreased by approximately \$0.6 million.

Cash used in investing activities for 2013 totaled approximately \$678,000 compared with approximately \$739,000 last year. Cash used in investing activities for both years was primarily to fund the purchase of engineering and manufacturing equipment and the development of software. We anticipate that future capital expenditures will be funded through our existing cash balance and operating cash flow.

Cash provided by financing activities for 2013 and 2012 totaled approximately \$52,000 and \$23,000, respectively, representing proceeds from the issuance of common stock.

We have a secured revolving credit facility with Silicon Valley Bank with maximum borrowing availability of \$5.0 million (subject to the borrowing base) and a maturity date of December 31, 2014.

As of December 31, 2013 and the date of this report, we were in compliance with all covenants under the loan and security agreement, as amended, governing the revolving credit facility. For a description of such covenants and the other terms and conditions of the loan and security agreement, as amended, reference is made to Note 6 (Debt) of our Consolidated Financial Statements included with this report.

As of December 31, 2013 and the date of this report, there were no borrowings outstanding under the revolving credit facility. As of December 31, 2013 and the date of this report, there was approximately \$3.0 million and \$3.3 million, respectively, of borrowing available under the revolving credit facility.

On March 8, 2013 our Board of Directors approved up to \$2.5 million of share repurchases through December 31, 2013. The repurchases were authorized to be made from time to time through a variety of methods, including open market repurchases and privately negotiated transactions, and would be funded from available cash. During 2013 we did not repurchase any of our shares.

Our cash balance at December 31, 2013 was approximately \$7.9 million. We believe these funds combined with anticipated cash generated from operations and borrowing availability under our revolving credit facility are sufficient to meet our working capital requirements for the foreseeable future. However, although we do not anticipate needing additional capital in the near term, the current financial and economic conditions could limit our access to credit and impair our ability to raise capital, if needed, on acceptable terms or at all. We also face other risks that could impact our business, liquidity and financial condition. For a description of these risks, see "Item 1A. Risk Factors" starting on page 6 of this report.

**Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements.

## Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements that impacted the years ended December 31, 2013, 2012 and 2011, or which are expected to impact future periods, which were not previously disclosed in prior periods.

## Critical Accounting Policies and Estimates

In response to the SEC's financial reporting release, FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, we have selected for discussion our revenue recognition process and our more subjective accounting estimation processes. These processes affect our reported revenues and current assets and are therefore critical in assessing our financial and operating status. The processes for determining the allowance for collection of trade receivables, reserves for excess or obsolete inventory, software development and income taxes, involve certain assumptions that if incorrect could create an adverse impact on our operations and financial position.

### *Revenue*

Sales revenue is recognized when the earnings process is complete and collection is reasonably assured. The earnings process is generally complete when the product is shipped by the Company or delivered to the customer, depending upon whether the title to the goods, as well as the risks and benefits of ownership are transferred to the customer at point of shipment or point of delivery. However, sales to the federal government are recognized when the products are delivered. For extended warranties, sales revenue associated with the warranty is deferred at the time of sale and later recognized on a straight-line basis over the extended warranty period. We periodically review our revenue recognition procedures to assure that such procedures are in accordance with ASC Topic 605, "Revenue Recognition."

### *Allowance for Doubtful Accounts*

The allowance for doubtful accounts was approximately \$84,000 on gross trade receivables of approximately \$2.9 million as of December 31, 2013, as compared with \$39,000 on gross trade receivables of approximately \$2.1 million as of December 31, 2012. This allowance is used to state trade receivables at a net realizable value or the amount that we estimate will be collected on our gross receivables as of December 31, 2013. Because the amount that we will actually collect on the receivables outstanding as of December 31, 2013 cannot be known with certainty as of this report's date, we rely on prior experience. Our historical collection losses have typically been infrequent with write-offs of trade receivables being less than 1% of sales during past years. Accordingly, we have maintained a general allowance of up to approximately 5% of the gross trade receivables balance in order to allow for future collection losses that arise from customer accounts that do not indicate the inability to pay but turn out to have such an inability. Currently, our general allowance on trade receivables is approximately 1.4% of gross receivables. As revenues and total receivables increase, the allowance balance may also increase. We also maintain a specific allowance for customer accounts that we know may not be collectible due to various reasons such as bankruptcy and other customer liquidity issues. We analyze our trade receivable portfolio based on the age of each customer's invoice. In this way, we can identify those accounts that are more likely than not to have collection problems. We may reserve a portion or all of the customer's balance. Currently, our specific allowance on trade receivables is approximately \$45,000, which represents approximately 54% of one customer account.

### *Excess and Obsolete Inventory*

The allowance for obsolete and slow moving inventory was approximately \$3.0 million and \$2.8 million at December 31, 2013 and 2012, respectively. The reserve for slow-moving, excess, or obsolete inventory is used to state our inventories at the lower of cost or market. Because the amount of inventory that we will actually recoup through sales cannot be known with certainty at any particular time, we rely on past sales experience, future sales forecasts, and our strategic business plans. Generally, in analyzing our inventory levels, we classify inventory as having been used or unused during the past year and establish a reserve based upon several factors, including, but not limited to, business forecasts, inventory quantities and historic usage profile.

Supplemental to the aforementioned analysis, specific inventory items are reviewed individually by management. Based on the review, considering business levels, future prospects, new products and technology changes, the valuation of specific inventory items may be adjusted to reflect an accurate valuation, in the business judgment of management. Management also performs a determination of net realizable value for all finished goods with a selling price below cost. For all such items, the inventory is valued at not more than the selling price less cost, if any, to sell.

#### *Software Development*

We account for the costs of software within its products in accordance with ASC Topic 985-20 *Costs of Software to be Sold, Leased or 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. We determine technological feasibility to be established upon the internal release of a detailed program design as specified by Topic 985-20. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding five years, based on current and future revenue of the product. Net capitalized software costs totaled approximately \$1.5 million as of December 31, 2013, as compared with approximately \$2.2 million as of December 31, 2012.

#### *Income Taxes*

We account for income taxes using the asset and liability method specified by ASC Topic 740, *Income Taxes*, as modified by ASC Topic 740-10-05. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply in the period in which the deferred tax asset or liability is expected to be realized. The effect of changes in net deferred tax assets and liabilities is recognized on our consolidated balance sheets and consolidated statements of operations in the period in which the change is recognized. Valuation allowances are provided to the extent that it is more likely than not that some portion, or all, of deferred tax assets will not be realized. In determining whether a tax asset is realizable, we consider among other things, estimates of future earnings based on information currently available, current and anticipated customers, contracts and new product introductions, as well as recent operating results and certain tax planning strategies. If we fail to achieve the future results anticipated in the calculation and valuation of net deferred tax assets, we may be required to adjust the valuation allowance related to our deferred tax assets in the future.

#### **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 "Item 1A. Risk Factors" and elsewhere in this report and in our subsequent filings with the Securities and Exchange Commission. 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.

**Item 8. Financial Statements and Supplementary Data**

See pages F-1 through F-17.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
RELM Wireless Corporation  
West Melbourne, Florida

We have audited the accompanying consolidated balance sheets of RELM Wireless Corporation as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RELM Wireless Corporation at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Miami, Florida  
March 5, 2014

**RELM WIRELESS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
*(in Thousands, except share data)*

	December 31,	
	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,945	\$ 6,581
Trade accounts receivable (net of allowance for doubtful accounts of \$84 and \$39 in 2013 and 2012, respectively)	2,844	2,062
Inventories, net	11,575	13,345
Deferred tax assets	3,836	4,429
Prepaid expenses and other current assets	1,920	915
Total current assets	28,120	27,332
Property, plant and equipment, net	1,045	1,113
Deferred tax assets, net	3,072	2,978
Capitalized software, net	1,478	2,207
Other assets	308	330
Total assets	\$ 34,023	\$ 33,960
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 950	\$ 1,132
Accrued compensation and related taxes	779	1,485
Accrued warranty expense	292	267
Accrued other expenses and other current liabilities	154	166
Note payable	—	18
Deferred revenue	281	627
Total current liabilities	2,456	3,695
Deferred revenue	147	81
Total liabilities	\$ 2,603	\$ 3,776
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: 13,588,804 and 13,545,482 issued and outstanding shares at December 31, 2013 and 2012, respectively	8,153	8,127
Additional paid-in capital	24,672	24,604
Accumulated deficit	(1,405)	(2,547)
Total stockholders' equity	31,420	30,184
Total liabilities and stockholders' equity	\$ 34,023	\$ 33,960

*See notes to consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(in Thousands, except per share data)*

	Years Ended December 31,	
	2013	2012
Sales, net	\$ 27,023	\$ 27,576
Expenses		
Cost of products	15,276	14,511
Selling, general and administrative	10,106	10,172
	<u>25,382</u>	<u>24,683</u>
Operating income	1,641	2,893
Other (expense) income:		
Interest expense	—	(4)
Interest income	—	1
Other income (expense)	16	(9)
Total other income (expense)	<u>16</u>	<u>(12)</u>
Income before income taxes	1,657	2,881
Income tax expense	(515)	(816)
Net income	<u>\$ 1,142</u>	<u>\$ 2,065</u>
Net income per share-basic:	<u>\$ 0.08</u>	<u>\$ 0.15</u>
Net income per share-diluted:	<u>\$ 0.08</u>	<u>\$ 0.15</u>
Weighted average shares outstanding-basic	<u>13,569</u>	<u>13,542</u>
Weighted average shares outstanding-diluted	<u>13,627</u>	<u>13,544</u>

*See notes to consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
*(in Thousands, except share data)*

	Common Stock		Additional paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2011	13,519,323	\$ 8,111	\$ 24,570	\$ (4,612)	\$ 28,069
Common stock options exercised and issued	26,159	16	7	—	23
Share-based compensation expense	—	—	27	—	27
Net income	—	—	—	2,065	2,065
Balance at December 31, 2012	13,545,482	8,127	24,604	(2,547)	30,184
Common stock options exercised and issued	43,322	26	26	—	52
Share-based compensation expense	—	—	42	—	42
Net income	—	—	—	1,142	1,142
Balance at December 31, 2013	<b>13,588,804</b>	<b>\$ 8,153</b>	<b>\$ 24,672</b>	<b>\$ (1,405)</b>	<b>\$ 31,420</b>

*See notes to consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
*(in Thousands, except share data)*

	Years Ended December 31,	
	2013	2012
<b>Operating activities</b>		
Net income	\$ 1,142	\$ 2,065
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for doubtful accounts	45	(5)
Inventory reserve	128	67
Deferred tax expense	500	763
Depreciation and amortization	1,475	1,355
Share-based compensation expense	42	27
Changes in operating assets and liabilities:		
Accounts receivable	(827)	2,098
Inventories	1,642	(1,264)
Prepaid expenses and other current assets	(1,006)	(389)
Other assets	22	(111)
Accounts payable	(182)	(624)
Accrued compensation and related taxes	(706)	678
Accrued warranty expense	25	20
Deferred revenue	(280)	58
Note payable	(18)	18
Accrued other expenses and other current liabilities	(12)	(152)
<b>Net cash provided by operating activities</b>	<b>1,990</b>	<b>4,604</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(338)	(375)
Capitalized software	(340)	(364)
<b>Net cash used in investing activities</b>	<b>(678)</b>	<b>(739)</b>
<b>Financing activities</b>		
Proceeds from issuance of common stock	52	23
<b>Net cash provided by financing activities</b>	<b>52</b>	<b>23</b>
Increase in cash	1,364	3,888
Cash and cash equivalents, beginning of year	6,581	2,693
Cash and cash equivalents, end of year	<u>\$ 7,945</u>	<u>\$ 6,581</u>
<b>Supplemental disclosure</b>		
Cash paid for interest	\$ —	\$ 4
Cash paid for income taxes	\$ —	\$ 92
<b>Non-cash financing activity</b>		
Cashless exercise of stock options	\$ 9	\$ 4

*See notes to consolidated financial statements.*

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**1. Summary of Significant Accounting Policies**

**Description of Business**

RELM Wireless Corporation and its subsidiary's (collectively, the "Company") primary business is the designing, manufacturing, and marketing of wireless communications equipment consisting primarily of two-way land mobile radios and related products which are sold in two primary markets: (1) the government and public safety market and (2) business and industrial market. The Company has only one reportable business segment.

**Principles of Consolidation**

The accounts of the Company have been included in the accompanying consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

**Inventories**

Inventories are stated at the lower of cost (determined by the average cost method) or market. Freight costs are classified as a component of cost of products in the accompanying consolidated statements of operations.

**Property, Plant and Equipment**

Property, plant and equipment is carried at cost. Expenditures for maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in operations for the period.

Depreciation is generally computed on the straight-line method using lives of 3 to 10 years on machinery and equipment and 5 to 10 years on buildings and building improvements.

**Capitalized Software Costs**

Capitalized software development costs are those incurred during the programming, codification and testing phase. Costs incurred during the design and planning, product definition and product specification state are accounted for as expenses.

The amortization of capitalized software costs during a reporting period is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product and (b) the straight-line method over the remaining estimated economic life of the software or the product they are incorporated within.

**Impairment of Long-Lived Assets**

Management regularly reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets which considers the discounted future net cash flows. No long-lived assets were considered impaired at December 31, 2013.

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**1. Summary of Significant Accounting Policies (Continued)**

**Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Allowance for Doubtful Accounts**

The Company records an allowance for doubtful accounts based on specifically identified amounts that the Company believes to be uncollectible. The Company also records additional allowance based on certain percentages of the Company's aged receivables, which are determined based on historical experience and the Company's assessment of the general financial conditions affecting the Company's customer base. If the Company's actual collections experience changes, revisions to the Company's allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management believes the allowance for doubtful accounts as of December 31, 2013 is adequate.

**Revenue Recognition**

Sales revenue is recognized when the earnings process is complete and collection is reasonably assured. The earnings process is generally complete when the product is shipped or received by the customer, depending upon whether the title to the goods, as well as the risks and benefits of ownership are transferred to the customer at point of shipment or point of delivery. However, sales to the federal government are recognized when the products are delivered. For extended warranties, sales revenue associated with the warranty is deferred at the time of sale and later recognized on a straight-line basis over the extended warranty period.

The Company periodically reviews its revenue recognition procedures to assure that such procedures are in accordance with ASC Topic 605, "Revenue Recognition." Surcharges collected on certain sales to government customers and remitted to governmental agencies are not included in revenues or in costs and expenses.

**Income Taxes**

The Company accounts for income taxes using the asset and liability method specified by ASC Topic 740, "Income Taxes", as modified by ASC Topic 740-10-05. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply in the period in which the deferred tax asset or liability is expected to be realized. The effect of changes in net deferred tax assets and liabilities is recognized on the Company's consolidated balance sheets and consolidated statements of operations in the period in which the change is recognized. Valuation allowances are provided to the extent that impairment of tax assets are more likely than not. In determining whether a tax asset is realizable, the Company considers among other things, estimates of future earnings based on information currently available, current and anticipated customers, contracts and new product introductions, as well as recent operating results during 2013 and 2012 and certain tax planning strategies. If the Company fails to achieve the future results anticipated in the calculation and valuation of net deferred tax assets, the Company may be required to adjust the valuation allowance related to its deferred tax assets in the future.

**Concentration of Credit Risk**

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At December 31, 2013 and 2012, accounts receivable from governmental customers were approximately \$902 and \$1,626, respectively. Generally, receivables are due within 30 days. Credit losses relating to customers consistently have been within management's expectations.

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**1. Summary of Significant Accounting Policies (Continued)**

The Company primarily maintains cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250. From time to time, the Company has had cash in financial institutions in excess of federally insured limits. As of December 31, 2013, the Company had cash and cash equivalents in excess of FDIC limits of approximately \$7,695.

**Manufacturing and Raw Materials**

The Company relies upon a limited number of manufacturers to produce its products and on a limited number of component suppliers. Some of these manufacturers and suppliers are in other countries. Approximately 72% of the Company's material, subassembly and product procurements in 2013 were sourced internationally, of which approximately 53.1% were sourced from one supplier. For 2012, approximately 77% of the Company's material, subassembly and product procurements were sourced internationally, of which approximately 68.4% were sourced from one supplier. Purchase orders denominated in U.S. dollars are placed with these suppliers from time to time and there are no guaranteed supply arrangements or commitments.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. Significant estimates include accounts receivable allowances, inventory obsolescence reserves, warranty reserves, capitalized software costs and income tax accruals. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

The Company's management believes that carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximates fair value due to the short-term nature of these financial instruments.

**Shipping and Handling Costs**

Shipping and handling costs are classified as a part of cost of revenues in the accompanying consolidated statements of operations for the years ended December 31, 2013 and 2012. Amounts billed to a customer, if any, for shipping and handling are reported as a revenue.

**Advertising and Promotion Costs**

The cost for advertising and promotion is expensed as incurred. Advertising and promotion expense are classified as part of selling, general and administrative expenses in the accompanying consolidated statements of operations. For the years ended December 31, 2013 and 2012, such expenses totaled \$204 and \$254, respectively.

**Research and Development Costs**

Included in selling, general and administrative expenses for the years ended December 31, 2013 and 2012 are research and development costs of \$3,851 and \$3,667, respectively.

RELM WIRELESS CORPORATION  
YEARS ENDED DECEMBER 31, 2013 AND 2012  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in Thousands, except share data and percentages)

1. **Summary of Significant Accounting Policies (Continued)**

**Share-Based Compensation**

The Company accounts for share-based arrangements in accordance with the Financial Accounting Standards Board ("FASB") issued ASC Topic 718, *Compensation-Stock Compensation*. This Topic requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which the employee is required to provide service in exchange for the award requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in ASC Topic 718.

**Earnings Per Share**

Earnings per share amounts are computed and presented for all periods in accordance with ASC Topic 260-10-05, *Earnings per Share*.

**Comprehensive Income**

Pursuant to ASC Topic 220-10-05, *Reporting Comprehensive Income*, the Company is required to report comprehensive income (loss) and its components in its consolidated financial statements. The Company does not have any significant components of other comprehensive income (loss) to be reported under ASC Topic 220-10-05. Total comprehensive income (loss) is equal to net income (loss) reported for all periods presented in the consolidated financial statements.

**Product Warranty**

The Company offers two-year warranties to its customers depending on the specific product and terms of the customer purchase agreement. The Company's typical warranties require it to repair and replace defective products during the warranty period at no cost to the customer. At the time the product revenue is recognized, the Company records a liability for estimated costs under its warranties. The costs are estimated based on historical experience. The Company periodically assesses the adequacy of its recorded liability for product warranties and adjusts the amount as necessary.

**Recent Accounting Pronouncements**

There have been no recent accounting pronouncements or changes in accounting pronouncements that impacted the years ended December 31, 2013 and 2012, or which are expected to impact future periods, which were not previously disclosed in prior periods.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**2. Inventories, net**

Inventories, which are presented net of allowance for obsolete and slow moving inventory, consisted of the following:

	December 31,	
	2013	2012
Finished goods	\$ 3,525	\$ 4,316
Work in process	5,702	6,278
Raw materials	2,348	2,751
	<u>\$ 11,575</u>	<u>\$ 13,345</u>

Changes in the allowance for obsolete and slow moving inventory is as follows:

	Years Ended December 31,	
	2013	2012
Balance, beginning of year	\$ 2,832	\$ 2,765
Charged to cost of sales	140	164
Disposal of inventory	(12)	(97)
Balance, end of year	<u>\$ 2,960</u>	<u>\$ 2,832</u>

**3. Allowance for Doubtful Accounts**

Changes in the allowance for doubtful accounts is composed of the following:

	Years Ended December 31,	
	2013	2012
Balance, beginning of year	\$ 39	\$ 44
Provision for doubtful accounts	51	-
Uncollectible accounts written off	(6)	(5)
Balance, end of year	<u>\$ 84</u>	<u>\$ 39</u>

**4. Property, Plant and Equipment, net**

Property, plant and equipment, net include the following:

	December 31,	
	2013	2012
Leasehold improvements	\$ 322	\$ 294
Machinery and equipment	5,576	5,289
Less accumulated depreciation and amortization	(4,853)	(4,470)
Property, plant and equipment, net	<u>\$ 1,045</u>	<u>\$ 1,113</u>

Depreciation and amortization expense relating to property, plant, and equipment for the years ended December 31, 2013 and 2012 was \$406 and \$420, respectively.

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**5. Accounting for Software Costs**

The Company accounts for the costs of software within its products in accordance with ASC Topic 985-20 *Costs of Software to be Sold, Leased or 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 Topic 985-20. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding five years, based on current and future revenue of the product. Net capitalized software costs totaled \$1,478 and \$2,207 as of December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Company's amortization expense for capitalized software was approximately \$1,069 and \$935, respectively.

**6. Debt**

The Company has a secured revolving credit facility with Silicon Valley Bank ("SVB"). On December 18, 2012, the Company and SVB amended the Loan and Security Agreement dated as of October 23, 2008, as amended by the First Amendment thereto dated as of October 20, 2010 and the Second Amendment thereto dated as of June 22, 2011, under which the existing \$5.0 million secured revolving credit facility is maintained, by entering into the Third Amendment to Loan and Security Agreement. Under the Third Amendment, the existing \$5.0 million secured revolving credit facility was amended as follows:

- the secured credit facility's maturity date was extended to December 31, 2014 from December 31, 2012;
- the variable rate at which borrowings bear interest was reduced from the prime rate plus 50 basis points to the prime rate when the Company's "Adjusted Quick Ratio" is greater than or equal to 1.25 to 1.00;
- the unused revolving line facility fee and the letter of credit fee were eliminated;
- the Company's minimum "tangible net worth" requirement was reset to \$25.77 million, such minimum requirement continuing to be subject to increase by (i) 50% of quarterly net profits and (ii) 75% of the net proceeds received from issuances of equity and issuances of "subordinated debt"; and
- the Company's obligation not to pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock was amended to permit "Permitted Stock Repurchases" consisting of repurchases of RELM common stock when (i) no default or event of default exists, (ii) the Company's representations and warranties remain true in all material respects, (iii) the repurchase occurs not later than December 31, 2013, (iv) the aggregate purchase price for all Permitted Stock Repurchases does not exceed \$2,500,000 and (v) at the time of the repurchase the "Adjusted Quick Ratio" is at least 1.25 to 1.00.

The Company remains subject to substantially the same customary borrowing terms and conditions under the secured credit facility as it was prior to the Third Amendment, including the accuracy of representations and warranties, compliance with financial maintenance and restrictive covenants and the absence of events of default. The Company's obligations are secured by substantially all of its assets, principally accounts receivable and inventory.

The Company was in compliance with all covenants under the Loan and Security Agreement, as amended by the Third Amendment, as of December 31, 2013. The Company had no borrowings outstanding under the secured credit facility as of December 31, 2013, and approximately \$3.0 million was available for borrowing.

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**6. Debt (continued)**

The foregoing description of the revolving credit facility is not complete and is qualified in its entirety by reference to the loan and security agreement dated as of October 23, 2008, as amended by the first amendment to loan and security agreement dated as of October 20, 2010, by the second amendment to loan and security agreement dated June 22, 2011, and by the third amendment to loan and security agreement dated December 18, 2012, copies of which are listed and incorporated by reference as Exhibits 10.8, 10.9, 10.10 and 10.11 to the report in which these Consolidated Financial Statements are included, and are incorporated by reference herein.

**7. Leases**

The Company leases approximately 54,000 square feet of industrial space in West Melbourne, Florida. The original lease, which expired on June 30, 2005, was renewed for an additional five years. In December 2008 and September 2013, we executed the first and second amendments, respectively, to the lease, each of which reduces the amount of the monthly base rent payment. The second amendment extends the expiration date to June 30, 2020. Rental, maintenance and tax expenses for this facility were approximately \$477 and \$475 in 2013 and 2012, respectively. The Company also leases 8,100 square feet of office space in Lawrence, Kansas, to accommodate a portion of the Company's engineering team. The lease, which expired on December 31, 2009, was renewed for an additional five years with an expiration date of December 31, 2014. Rental, maintenance and tax expenses for this facility were approximately \$92 in 2013 and 2012, respectively.

The following table summarizes future minimum rental payments under these leases as of December 31, 2013:

2014	\$	557
2015		465
2016		465
2017		465
2018		465
	<b>\$</b>	<b>2,417</b>

**8. Income Taxes**

The income tax expense is summarized as follows:

	Years Ended December 31,	
	2013	2012
Current:		
Federal	\$ 15	\$ 49
State	1	5
	<u>16</u>	<u>54</u>
Deferred:		
Federal	478	722
State	21	40
	<u>499</u>	<u>762</u>
	<b>\$ 515</b>	<b>\$ 816</b>

**RELM WIRELESS CORPORATION**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(in Thousands, except share data and percentages)*

**8. Income Taxes (continued)**

A reconciliation of the statutory United States income tax rate to the effective income tax rate follows:

	Years Ended December 31,	
	2013	2012
Statutory U.S. income tax rate	34.00%	34.00%
States taxes, net of federal benefit	1.29%	1.50%
Permanent differences	2.36%	1.04%
Change in valuation allowance	(0.84)%	(8.19)%
Change in net operating loss carryforwards and tax credits	(5.02)%	0.30%
Other	(0.70)%	(0.33)%
<b>Effective income tax rate</b>	<b>31.09%</b>	<b>28.32%</b>

The components of the deferred income tax assets (liabilities) are as follows:

	December 31,			
	2013		2012	
	Current	Long Term	Current	Long Term
<b>Deferred tax assets:</b>				
Operating loss carryforwards	\$ 1,542	\$ 1,651	\$ 2,098	\$ 1,369
R and D tax credit	—	951	—	860
AMT tax credit	—	266	—	251
Section 263A costs	535	—	534	—
Research and development costs	219	1,209	219	1,206
Amortization	—	—	—	19
<b>Asset reserves:</b>				
Bad debts	30	—	14	—
Inventory reserve	1,058	—	1,009	—
<b>Accrued expenses:</b>				
Non-qualified stock options	—	78	—	77
Compensation	199	—	208	—
Warranty	253	—	347	—
<b>Deferred tax assets</b>	<b>3,836</b>	<b>4,155</b>	<b>4,429</b>	<b>3,782</b>
Less valuation allowance	—	—	—	(14)
Less APIC pool reserve	—	(380)	—	(380)
<b>Total deferred tax assets</b>	<b>3,836</b>	<b>3,775</b>	<b>4,429</b>	<b>3,388</b>
<b>Deferred tax liabilities:</b>				
Depreciation	—	(507)	—	(410)
Amortization	—	(196)	—	—
<b>Total deferred tax liabilities</b>	<b>—</b>	<b>(703)</b>	<b>—</b>	<b>(410)</b>
<b>Net deferred tax assets</b>	<b>\$ 3,836</b>	<b>\$ 3,072</b>	<b>\$ 4,429</b>	<b>\$ 2,978</b>

**RELM WIRELESS CORPORATION**  
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*(in Thousands, except share data and percentages)*

**8. Income Taxes (continued)**

As of December 31, 2013, the Company had a net deferred tax asset of approximately \$6,909. This asset is primarily composed of net operating loss carry forwards ("NOLs"), research and development costs, and a reserve for inventory. The NOLs total \$7,507 for federal and \$15,107 for state purposes, with expirations starting in 2018 and ending in 2030. Included in the Company's NOLs as of December 31, 2013 is approximately \$1,009 from the exercise of stock options. The benefit from utilization of this portion of the NOL, which equates to a deferred tax asset of approximately \$380 and is reserved through a valuation allowance at December 31, 2013, will be recorded as a debit to valuation allowance and credit to additional paid in capital when the related deferred tax asset is realized.

During 2013 and 2012 the Company utilized \$749 and \$2,447, respectively, of its NOLs. The deferred tax asset amounts are based upon management's conclusions regarding, among other considerations, the Company's current and anticipated customer base, contracts, and product introductions, certain tax planning strategies, and management's estimates of future earnings based on information currently available, as well as recent operating results during 2013 and 2012. ASC Topic 740 "Income Taxes" requires that all positive and negative evidence be analyzed to determine if, based on the weight of available evidence, the Company is more likely than not to realize the benefit of the deferred tax asset.

The Company has evaluated the available evidence and the likelihood of realizing the benefit of its deferred tax asset. Based on this evaluation, the weight of available evidence supports the conclusion that the Company, more likely than not, will realize all of the benefit of its state deferred tax assets. Should the factors underlying management's analysis change, future valuation adjustments to the Company's net deferred tax asset may be necessary. If future losses are incurred, it may be necessary to record an additional valuation allowance related to the Company's net deferred tax asset recorded as of December 31, 2013. It cannot presently be estimated what, if any, changes to the valuation of our deferred tax asset may be deemed appropriate in the future. The 2013 federal and state net operating loss and tax credit carryforwards could be subject to limitation if, within any three year period prior to the expiration of the applicable carryforward period, there is a greater than 50% change in ownership of the Company.

For the years ended December 31, 2013 and 2012, the Company incurred \$15 and \$49, respectively in alternative minimum tax expense in connection with the federal limitation on alternative tax net operating loss carry-forwards.

As a result of the implementation of ASC Topic 740 "Income Taxes", the Company performed a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by ASC 740-10. In this regard, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return or planned to be taken in a future tax return that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this, the Company is not aware of any uncertain tax positions that would require additional liabilities or which such classification would be required. The amount of unrecognized tax positions did not change as of December 31, 2013 and the Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

Penalties and tax-related interest expense, of which there were no material amounts for the year ended December 31, 2013 are reported as a component of income tax expense.

**RELM WIRELESS CORPORATION**  
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*(in Thousands, except share data and percentages)*

**8. Income Taxes (continued)**

The Company files federal income tax returns, as well as multiple state and local jurisdiction tax returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution on any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most probable outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. The resolution of a matter would be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution. The calendar years 2009, 2010, and 2011 and 2012 are still open to IRS examination under the statute of limitations. An IRS examination on the Company's 2007 calendar year was recently closed with no change.

**9. Income Per Share**

The following table sets the computation of basic and diluted (loss) income per share:

	Years ended December 31,	
	2013	2012
<b>Numerator:</b>		
Net income from continuing operations numerator for basic and diluted earnings per share	\$ 1,142	\$ 2,065
<b>Denominator:</b>		
Denominator for basic earnings per share weighted average shares	13,568,589	13,542,305
<b>Effect of dilutive securities:</b>		
Stock options	58,676	2,231
Denominator for diluted earnings per share weighted average shares	13,627,265	13,544,536
Basic income per share	\$ 0.08	\$ 0.15
Diluted income per share	\$ 0.08	\$ 0.15

Approximately 279,000 and 436,000 stock options for the years ended December 31, 2013, and 2012, respectively, were excluded from the calculation because they were anti-dilutive.

**10. Share-Based Employee Compensation**

The Company has employee and non-employee director stock option programs. Related to these programs, and in accordance with ASC Topic 718, *Compensation-Stock Compensation*, the Company recorded \$42 and \$27 of share-based employee compensation expense during the years ended December 31, 2013 and 2012, respectively, and is included as a component of cost of products and selling, general and administrative expenses in the accompanying consolidated statements of operations. No amount of share-based employee compensation expense was capitalized as part of capital expenditures or inventory for the years presented.

The Company uses the Black-Scholes-Merton option valuation model to calculate the fair value of a stock option grant. The share-based employee compensation expense recorded in the years ended December 31, 2013 and 2012 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. While the Company paid a one-time special cash dividend in 2007, it has never paid a cash dividend previously, nor is a cash dividend planned for the future. Accordingly, the assumed dividend yield is zero. The Company has estimated its future stock option exercises. The expected term of option grants is based upon the observed and expected time to the date of post vesting exercises and forfeitures of options by the Company's employees. The risk-free interest rate is derived from the average U.S. Treasury rate for the period, which approximates the rate at the time of the stock option grant.

**RELM WIRELESS CORPORATION**  
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*(in Thousands, except share data and percentages)*

**10. Share-Based Employee Compensation (continued)**

	FY 2013	FY 2012
Expected Volatility	72.3%	72.3%
Expected Dividends	0.00	0.00
Expected Term (in years)	3.0	3.0
Risk-Free Rate	1.05%	0.40%
Estimated forfeitures	0.0%	0.0%

A summary of stock option activity under our stock option plans as of December 31, 2013, and changes during the year ended December 31, 2013 are presented below:

As of January 1, 2013	Stock Options	Wgt. Avg. Exercise Price (\$) Per Share	Wgt. Avg. Remaining Contractual Life (Years)	Wgt. Avg. Grant Date Fair Value (\$) Per Share	Aggregate Intrinsic Value (\$)
Outstanding	460,944	3.47	—	2.29	—
Vested	435,944	3.55	—	2.38	—
Nonvested	25,000	2.03	—	0.68	—
<b>Period activity</b>					
Issued	90,000	2.59	—	0.98	—
Exercised	63,333	1.95	—	1.19	—
Forfeited	—	—	—	—	—
Expired	5,000	4.50	—	2.68	—

<b>As of December 31, 2013</b>					
Outstanding	482,611	3.50	4.13	2.18	344,155
Vested	410,942	3.64	3.65	2.41	292,653
Nonvested	71,669	2.68	6.89	0.87	51,503

**Outstanding:**

Range of Exercise Prices (\$) Per Share	Stock Options Outstanding	Wgt. Avg. Exercise Price (\$) Per Share	Wgt. Avg. Remaining Contractual Life (Years)
1.50	106,000	1.73	3.52
2.00	154,167	2.26	4.29
3.45	222,444	5.19	4.31
	<u>482,611</u>	<u>3.50</u>	<u>4.13</u>

**Exercisable:**

Range of Exercise Prices (\$) Per Share	Stock Options Exercisable	Wgt. Avg. Exercise Price (\$)
1.50	106,000	1.73
2.00	107,498	2.26
3.45	197,444	5.41
	<u>410,942</u>	<u>3.64</u>

The weighted-average grant-date fair value per option granted during the years 2013 and 2012 was \$0.98 and \$0.68, respectively. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2013 and 2012 was approximately \$90 and \$15, respectively.

**RELM WIRELESS CORPORATION**  
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*(in Thousands, except share data and percentages)*

**11. Significant Customers**

Sales to the United States Government represented approximately 34% and 39% of the Company's total sales for the years ended December 31, 2013 and 2012, respectively. These sales were primarily to the various government agencies, including those within the United States Department of Defense, the United States Forest Service, and the United States Department of the Interior.

**12. Retirement Plans**

The Company sponsors a participant contributory retirement (401K) plan, which is available to all employees. The Company's contribution to the plan is either a percentage of the participants contribution (50% of the participants contribution up to a maximum of 6%) or a discretionary amount. For the years ended December 31, 2013 and 2012, total contributions made by the Company were \$94 and \$47, respectively.

**13. Commitments and Contingencies**

**Royalty Commitment**

In 2002, the Company entered into a technology license related to its development of digital products. Under this agreement, the Company is obligated to pay a royalty for each product sold that utilizes the technology covered by this agreement. The Company paid \$88 and \$93 for the years ended December 31, 2013 and 2012, respectively. The agreement has an indefinite term, and can be terminated by either party under certain conditions.

**Purchase Commitments**

The Company has purchase commitments for inventory totaling \$4,922 as of December 31, 2013.

**Self Insured Health Benefits**

The Company maintains a self-insured health benefit plan for its employees. This plan is administered by a third party. As of December 31, 2013, the plan had a stop loss provision insuring losses beyond \$80 per employee per year and an aggregate stop loss of \$1,563. As of December 31, 2013 and 2012, the Company recorded an accrual for estimated claims in the amount of approximately \$126 and \$163, respectively, in accrued other expenses and other current liabilities of the Company's consolidated balance sheets. This amount represents the Company's estimate of incurred but not reported claims as of December 31, 2013 and 2012.

**Liability for Product Warranties**

Changes in the Company's liability for its standard two year product warranties during the years ended December 31, 2013 and 2012 are as follows:

	Balance at Beginning of Year		Warranties Issued		Warranties Settled		Balance at End of Year
2013	\$ 267	\$	292	\$	(267)	\$	292
2012	\$ 247	\$	267	\$	(247)	\$	267

**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 material claims or legal matters as of December 31, 2013.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. 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 (the "Exchange Act") Rules 13a-15(e) and 15d-15(e)) as of December 31, 2013. Based on this evaluation they have concluded that our disclosure controls and procedures were effective as of December 31, 2013.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with United States generally accepted accounting principles. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to a change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An internal control material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our management, including our principal executive officer and principal accounting officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013, and concluded that our internal controls over financial reporting were effective as of December 31, 2013. In making the assessment of internal control over financial reporting, management used the criteria established in Internal Control –Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated by reference to RELM's definitive proxy statement to be filed within 120 days of its fiscal year end in connection with the solicitation of proxies for its 2014 annual meeting of stockholders.

**Item 11. Executive Compensation**

Information required by this item is incorporated by reference to RELM's definitive proxy statement to be filed within 120 days of its fiscal year end in connection with the solicitation of proxies for its 2014 annual meeting of stockholders.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference to RELM's definitive proxy statement to be filed within 120 days of its fiscal year end in connection with the solicitation of proxies for its 2014 annual meeting of stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information required by this item is incorporated by reference to RELM's definitive proxy statement to be filed within 120 days of its fiscal year end in connection with the solicitation of proxies for its 2014 annual meeting of stockholders.

**Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated by reference to RELM's definitive proxy statement to be filed within 120 days of its fiscal year end in connection with the solicitation of proxies for its 2014 annual meeting of stockholders.

**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as a part of this report:

1. Consolidated Financial Statements listed below:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-2
Consolidated Statements of Operations - years ended December 31, 2013 and 2012	F-3
Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2013 and 2012	F-4
Consolidated Statements of Cash Flows - years ended December 31, 2013 and 2012	F-5
Notes to Consolidated Financial Statements	F-6

(b) Exhibits: The exhibits listed below are filed or furnished as a part of, or incorporated by reference into this report:

<b>Number</b>	<b>Exhibit</b>
3(i)	Articles of Incorporation (1)
3(ii)	Certificate of Amendment to Articles of Incorporation (2)
3(iii)	Amended and Restated By-Laws (3)
10.1	1997 Stock Option Plan, as amended (4)
10.2	2007 Non-Employee Directors' Stock Option Plan (7)
10.3	2007 Incentive Compensation Plan (7)
10.4	Manufacturing Agreement (2)
10.5	Contract dated July 6, 2005 between RELM Wireless Corporation and the United States Postal Service (5)
10.6	Form of 2007 Non-Employee Directors' Stock Option Agreement (13)
10.7	Form of Option Agreement for 1997 Stock Option Plan (6)
10.8	Loan and Security Agreement dated as of October 23, 2008 by and among Silicon Valley Bank, RELM Wireless Corporation and RELM Communications, Inc. (8)
10.9	First Amendment to Loan and Security Agreement dated as of October 20, 2010 by and among Silicon Valley Bank, RELM Wireless Corporation and RELM Communications, Inc. (9)
10.10	Second Amendment to Loan and Security Agreement dated as of June 22, 2011 by and among Silicon Valley Bank, RELM Wireless Corporation and RELM Communications, Inc. (10)
10.11	Third Amendment to Loan and Security Agreement dated as of December 18, 2012 by and among Silicon Valley Bank, RELM Wireless Corporation and RELM Communications, Inc. (11)
10.12	Executive Change of Control Agreement dated and effective as of February 29, 2012, entered into by and between RELM Wireless Corporation and David P. Storey (12)
10.13	Executive Change of Control Agreement dated and effective as of February 29, 2012, entered into by and between RELM Wireless Corporation and William P. Kelly (12)
10.14	Executive Change of Control Agreement dated and effective as of February 29, 2012, entered into by and between RELM Wireless Corporation and James E. Gilley (12)
10.15	Form of 2007 Incentive Compensation Plan Option Agreement (13)
<a href="#">21</a>	Subsidiaries of Registrant*
<a href="#">23.1</a>	Consent of BDO USA, LLP relating to RELM Wireless Corporation's Registration Statements on Form S-8 (Registration No. 333-112446 and Registration No. 333-147354)*
24	Power of Attorney (included on signature page)

Number	Exhibit
<a href="#">31.1</a>	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
<a href="#">31.2</a>	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
<a href="#">32.1</a>	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)*
<a href="#">32.2</a>	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)*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Definition Linkbase Document**

\* Included with this filing

\*\* Furnished herewith (not filed)

- (1) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- (2) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed May 29, 2013.
- (4) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 333-112446).
- (5) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
- (6) Incorporated by reference from the Company's Current Report on Form 8-K filed February 27, 2006.
- (7) Incorporated by reference from the Company's definitive Proxy Statement filed April 5, 2007, relating to the 2007 annual stockholders' meeting.
- (8) Incorporated by reference from the Company's Current Report on Form 8-K filed October 28, 2008.
- (9) Incorporated by reference from the Company's Current Report on Form 8-K filed October 20, 2010.
- (10) Incorporated by reference from the Company's Current Report on Form 8-K filed June 22, 2011.
- (11) Incorporated by reference from the Company's Current Report on Form 8-K filed December 19, 2012.
- (12) Incorporated by reference from the Company's Current Report on Form 8-K filed March 2, 2012.
- (13) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Each management contract or compensation plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) is listed in exhibit 10.1, 10.2, 10.3, 10.6, 10.7, 10.12, 10.13, 10.14 and 10.15.

(c) Consolidated Financial Statement Schedules:

All schedules have been omitted because they are inapplicable or not material, or the information called for thereby is included in the Consolidated Financial Statements and notes thereto.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of West Melbourne, Florida on the 5<sup>th</sup> day of March 2014.

**RELM WIRELESS CORPORATION**

By: /s/ David P. Storey  
David P. Storey  
President and Chief Executive Officer

**POWER OF ATTORNEY**

Each person whose signature appears below hereby constitutes and appoints David P. Storey and William P. Kelly and each of them, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them full power and authority to do and perform each and every act and all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents or any of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ George N. Benjamin, III</u> George N. Benjamin, III	Chairman of the Board	March 5, 2014
<u>/s/ David P. Storey</u> David P. Storey	President, Chief Executive Officer, and Director (Principal Executive Officer)	March 5, 2014
<u>/s/ William P. Kelly</u> William P. Kelly	Executive Vice President – Finance and Chief Financial Officer (Principal Financial Officer and Accounting Officer)	March 5, 2014
<u>/s/ Donald F. U. Goebert</u> Donald F. U. Goebert	Director	March 5, 2014
<u>/s/ Randolph K. Piechocki</u> Randolph K. Piechocki	Director	March 5, 2014
<u>/s/ Ryan J. Levenson</u> Ryan J. Levenson	Director	March 5, 2014
<u>/s/ Benjamin L. Rosenzweig</u> Benjamin L. Rosenzweig	Director	March 5, 2014
<u>/s/ Timothy O'Neil</u> Timothy O'Neil	Director	March 5, 2014

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibits
<a href="#">21</a>	Subsidiaries of Registrant
<a href="#">23.1</a>	Consent of BDO USA LLP relating to RELM Wireless Corporation's Registration Statements on Form S-8 (Registration No. 333-112446 and Registration No. 333-147354)
24	Power of Attorney (included on signature page)
<a href="#">31.1</a>	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a>	Certification Pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a>	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)
<a href="#">32.2</a>	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)
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Linkbase Document*

\* Furnished herewith (not filed)

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Subsidiaries of the Registrant

	Organized Under Laws of	Percentage of Voting Securities Owned by Immediate Parent
Relm Communications, Inc.	Florida	100%

Consent of Independent Registered Public Accounting Firm

RELM Wireless Corporation  
West Melbourne, Florida

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration No. 333-112446 and No. 333-147354) of RELM Wireless Corporation of our report dated March 5, 2014, relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ BDO USA, LLP  
Miami, Florida

March 5, 2014

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 annual report on Form 10-K 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: March 5, 2014

/s/ David P. Storey  
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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 annual report on Form 10-K 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: March 5, 2014

/s/ William P. Kelly  
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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 Annual Report of RELM Wireless Corporation (the "Company") on Form 10-K for the year ended December 31, 2013 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.

Date: March 5, 2014

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/s/ David P. Storey  
David P. Storey  
President and  
Chief Executive 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 Annual Report of RELM Wireless Corporation (the "Company") on Form 10-K for the year ended December 31, 2013 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.

Date: March 5, 2014

/s/ William P. Kelly  
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William P. Kelly  
Executive Vice President and  
Chief Financial Officer