

COMARCO, Inc.

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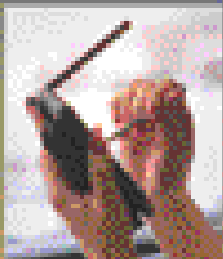
www.comarco.com

NASDAQ:CMRO

Our vision is to help provide
worldwide wireless connectivity.

Annual Report 2000

COMARCO, Inc.



About the Company

Comarco Wireless Technologies is a subsidiary of COMARCO Inc. and is the sole continuing operation of the company. Comarco Wireless Technologies (CWT) provides test and revenue assurance products and information services for wireless telephone carriers; systems for the wireless transmission of voice and data; and products for portable wireless appliances such as notebook computers, cellular telephones and personal organizers.

Comarco Wireless Technologies (CWT) is a wireless industry leader in:

- Products and information services for wireless network testing and optimization.

- Products and information services for wireless revenue assurance testing and analysis.

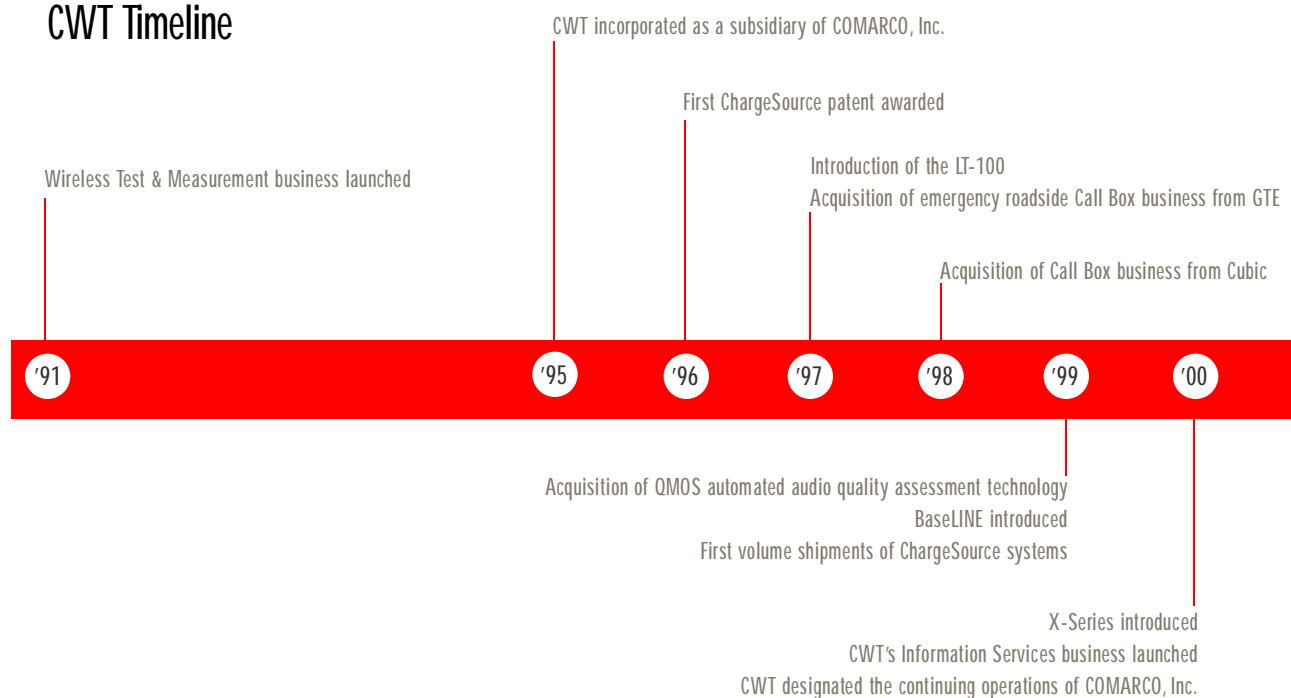
- Wireless voice and data systems, including emergency roadside call box systems, which immediately connect stranded motorists with police authorities.

- ChargeSource™, a universal power adapter and charger that charges notebook computers as well as cellular phones, PDA's and printers.

Financial Highlights

		(dollars in thousands)				
Income Statement						
Years ended January 31,	2000	1999	1998	1997	1996	
Revenues	\$39,224	\$34,004	\$29,524	\$19,519	\$14,352	
Operating income	5,419	5,956	5,943	4,282	2,561	
Net interest income	274	298	404	559	497	
Income before income taxes	5,647	6,254	6,347	4,841	3,058	
Income tax expense	2,061	2,283	2,317	1,622	1,046	
Net income	3,153	5,683	4,875	4,665	3,885	
Earnings per share (diluted)	\$.74	\$.77	\$.72	\$.58	\$.38	
Balance Sheet						
January 31,	2000	1999	1998	1997	1996	
Current assets	\$23,457	\$24,833	\$23,763	\$22,565	\$16,049	
Total assets	46,148	43,001	40,494	36,754	29,989	
Short-term debt	—	—	—	—	—	
Long-term debt	—	—	—	—	—	
Total stockholder's equity	31,754	31,202	30,470	26,977	21,738	

CWT Timeline



To Our Shareholders:

An exciting new company, positioned to take advantage of the convergence of wireless, Internet and broadband technologies, emerges as a result of decisions made during fiscal year 2000. Last summer, we determined that applying all of our capital, intellectual property and human resources to **Comarco Wireless Technologies (CWT)** would enhance shareholder value. To achieve that end, we are in the process of selling all non-wireless, government and staffing business units. That process is going well and we are pressing to complete the divestiture as quickly as possible.

CWT, a subsidiary of Comarco, Inc., was launched in 1991. At that time, the U.S. wireless communications industry had 5 million subscribers, 5,000 cell sites and revenue of \$2 billion. Today the U.S. industry has 90 million subscribers, 75,000 cell sites and revenue of \$20 billion. Further dynamic changes and extraordinary opportunities are forecast for the next decade. Since 1991, CWT has grown rapidly at a compound annual growth rate of 37.5% and has been continuously profitable, even while investing aggressively in new product development and infrastructure expansion. CWT is developing formidable design and manufacturing competencies in many critical core technologies including digital signal processing, RF receiver systems, enterprise software development, power resource optimization, wireless billing systems and infrastructure optimization and switch operations. Recently CWT accelerated the development of business systems and a deep and talented management team committed to the execution of our strategy.

The five business areas of CWT operate from a common core of engineering, manufacturing and intellectual property. We provide Test and Measurement products, Competitive Benchmarking and Engineering Information Services, Revenue Assurance Information Services, Stationary Wireless Applications, and Mobile Power Products.

The Company's **Test and Measurement** products enhance the profitability and performance of cellular and PCS network carriers by helping to improve the capacity of their wireless infrastructure while avoiding unnecessary expenditure of capital for additional cell sites. Our products also help carriers improve quality of service, thereby increasing customer loyalty and customer retention. In addition they provide valuable information on the quality of service delivered by competing carriers. All of the CWT products support both voice and data transfer and are available for all the major air interfaces (CDMA, IS-136, GSM, and iDEN). The emergence of broadband air interfaces

BaseLINE™

Representing the state of the art in comparative Quality of Service measurement, BaseLINE provides wireless network carriers with the detailed information on the actual performance of each competitor



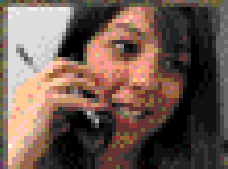
that they need to stay ahead.

Incorporating CWT's innovative Q-MOS technology, the BaseLINE permits wireless carriers to assess the audio quality of their network and to compare it directly with that offered by competing carriers.

Businesses of all types – small or large, corporate or home-based – will rely on wireless communications to stay connected with customers, colleagues and suppliers.

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is anticipated and CWT products will support these new multiple access technologies. The potential market for test and measurement products is increasing in step with the growth of the wireless communications industry.

Our Test and Measurement products fall into three product categories:

- **Benchmarking** — allows wireless network carriers to measure and compare the performance of their network over time and versus their competitors. Our principal product is **BaseLINE**.
- **Optimization** — allows carriers to diagnose and fix specific problems causing blocking, degraded voice quality and dropped calls. Our principal product is the X Series test and measurement platform.
- **Monitoring** — allows carriers to monitor the performance of their network in real time. Our principal product is the **LT-Series**.

This year CWT began using its industry-leading hardware and software systems to develop services for wireless carriers interested in outsourcing Quality of Service (QoS) benchmarking and optimization programs. Competitive Benchmarking and Engineering Information Services have wide appeal and offer substantial advantages to our customers. Using its mobile collection network, CWT collects and processes data to deliver high quality information to its customers. There is a strong trend in the industry toward carriers obtaining essential benchmarking and optimization data without directly employing high-cost test vehicles, systems and engineers. This trend toward outsourcing led to CWT obtaining national contracts for these services late in fiscal year 2000.

We expect dramatic growth for this business in the upcoming year.

Revenue Assurance Information Services provides critical information necessary to detect and prevent revenue losses from unbilled calls or errors in billed calls. Current wireless industry losses from all billing system defects are estimated at between 2% and 10% of total industry revenue, which is forecast to exceed \$500 billion by 2005. Using its revenue assurance testing network, CWT will provide high-value revenue assurance services aimed at improving the integrity of wireless billing and revenue collection. This is an emerging market area and one that should benefit from the trend toward outsourcing.

CWT is a dominant supplier of Stationary Wireless Applications. Our innovative motorist aid product, which is protected by five separate patents, allows the economic deployment of emergency call boxes that utilize the existing wireless communications infrastructure. There are currently over 22,500 wireless call boxes deployed in California, Nevada, Georgia, Florida, Pennsylvania, Colorado, Texas and New York City.

X 50™

The result of more than 10 years of wireless expertise, CWT's innovative X Series simplifies the analysis and optimization of complex digital wireless networks.

The X Series gathers a wealth of



complex system data and presents it in an ordered and easy to understand format. Facilitating advanced fault diagnosis the X Series helps carriers optimize their existing infrastructure while improving coverage and service quality, thus minimizing costs and adding to profitability.

Internet usage is well on its way to reaching 1 billion users by 2005, with over 300 million people presently logged on and up to 150 million more planning to do so this year*



*Angus Reid Group Study March, 2000

Typically, the company provides preventive and corrective maintenance for the installed base under long-term contracts with the local agencies that own the equipment. Last year we renewed maintenance agreements with a number of large customers for a total multi-year value of \$12 million. Other renewals are expected this year and we continue to aggressively market new call box systems.

ChargeSource, the first of our Mobile Power Products, provides power and charging functionality for popular electronic devices and wireless accessories - including notebook computers, cellular phones, personal organizers, and portable printers. It is designed for the mobile professional who regularly carries several pieces of equipment, all which can now be charged by a single ChargeSource power system. Over 25 million business professionals worldwide carry a notebook computer and cellular phone while traveling, making our addressable market quite significant. Introduction of our next generation ChargeSource product extends available market coverage to include essentially all IBM, Toshiba, Compaq, Dell, Apple and other popular portable computers, as well as all leading cellular telephones models, Palm and other handheld computers and portable printers.

These business areas are at different stages of development, each with unique financial needs and assumptions. Our Test and Measurement and Stationary Wireless Applications businesses are firmly established. We continue to invest for current growth and profitability. The Competitive Benchmarking and Engineering Information Services business area is growing rapidly and should be profitable in its first full year. We are investing to build infrastructure and to create additional competitive advantage. We are aggressively funding Revenue Assurance Information Services and Mobile Power Products. These are emerging businesses that should produce substantial revenue and profit in future years. Revenue, net income and earnings per share for continuing operations for the year reflected a year of development and preparation for growth. For fiscal year 2000, which ended January 31, 2000, diluted earnings per share were \$0.74. Net income for the fiscal year was \$3.6 million on revenues of \$39.2 million. On the same basis in fiscal year 1999, the Company reported net income of \$4.0 million or \$0.77 per share on revenues of \$34 million.

Our already strong balance sheet will be further strengthened by the divestiture of our non-wireless communications business units. At the conclusion of the divestiture, we currently expect to be debt-free, with about \$20 million in cash available to fund internal and external growth initiatives. This year we repurchased over 280,000 shares

LT200™

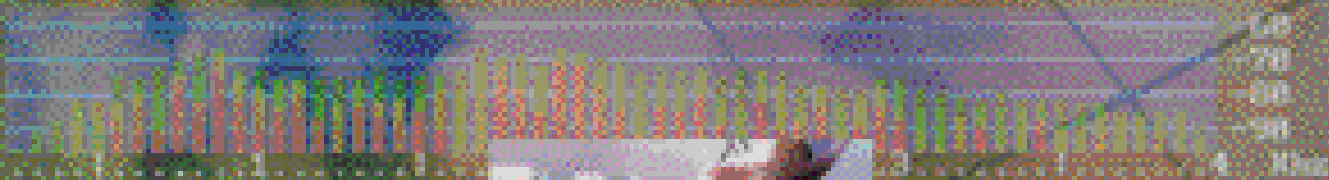
Designed to provide wireless network technicians with advanced real time field monitoring capabilities, the LT200 is the workhorse of



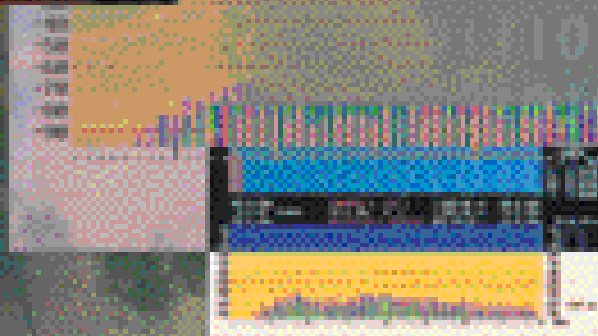
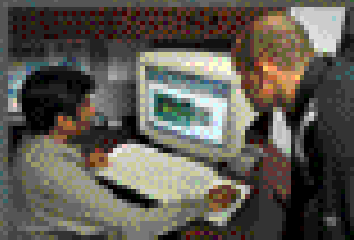
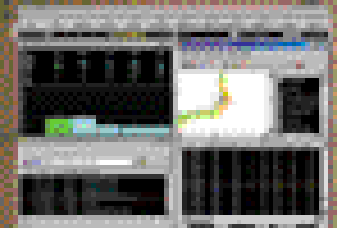
the cellular industry. Featuring a sunlight visible color "heads up" unit, the LT200

presents critical performance parameters in an easy to view format, simplifying fault detection, isolation and resolution. With its wide range of uses and real time displays, the LT200 offers high end features at a low price point.

CWT is well positioned with a wide array of products and services to address the demanding needs of tomorrow's wireless communications service providers and consumers.

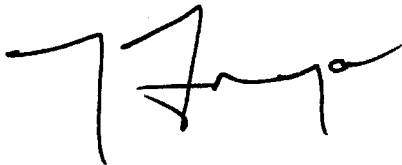


Service	1	2	3	4	5	6	7	8	9	10
Connect Internet	Free	Free	Free	Free	off	off	off	off	off	off
HD Service	Free	Free	Free	Free	off	off	off	off	off	off
Storage 50GB	Free	Free	Free	Free	off	off	off	off	off	off
24/7 Support	Free	Free	Free	Free	off	off	off	off	off	off



of stock, bringing our total repurchases in the last eight years to over 1.4 million shares. In addition to being a tax efficient way to return value to shareholders, the share repurchases have a positive effect on future earnings per share.

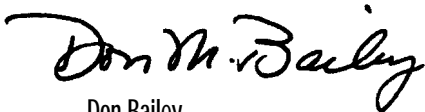
Wireless communications is an attractive and exciting industry in the world today. The digital revolution is creating exciting new products and services based on new technologies and business models. The Internet, digitized content, and all forms of voice and data networks are converging and creating unprecedented growth opportunities. This explosive growth creates a very attractive marketplace for the products and services provided by CWT. Our strategy is to create wireless products and services that have competitive advantages and deliver high value to our customers. Our highly talented management team is committed to executing our strategy and enhancing shareholder value. In the coming year we will continue to grow and strengthen our exciting new company. We look forward to updating you on our progress.



Tom Franza
President and CEO



Tom Franza



Don Bailey
Chairman of the Board



Don Bailey

ChargeSource

A single ultra-slim and light-weight ChargeSource AC adapter powers and charges most notebook computers, cellular telephones, Palm and handheld PC's, and portable printers. Its patented



SmartTip™ technology configures the power adapter uniquely for each mobile device it supports.

ChargeSource is the perfect travel companion for the mobile professional, it keeps them energized, productive and connected while on the road.

Corporate Directory

Corporate Officers

Don M. Bailey
Chairman of the Board

Thomas A. Franza
President and CEO

Thomas P. Baird
Vice President and CFO

John C. Hillis
Senior Vice President
President Comarco Systems

Mark A. Koschmeder
Assistant Treasurer

Richard Loomis
Senior Vice President
President Comarco Services

Michael J. Burdick
Vice President

Evelyn M. Evans
Vice President and Secretary

Peggy Vessell
Assistant Secretary

CWT Officers

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President and CEO

Thomas P. Baird
Vice President and CFO

Michael J. Burdick
Senior Vice President

Steve W. Rogers
Senior Vice President

Mark Chapman
Vice President

Sebastian E. Gutierrez
Vice President

Marc Booth
Vice President

Robert E. Wattenberg
Vice President

Evelyn M. Evans
Vice President and Secretary

Peggy Vessell
Assistant Secretary

Board of Directors

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Chairman

Thomas A. Franza
President and CEO

General Wilber L. Creech
(USAF, retired) Formerly Commander
of the Tactical Air Command.

Gerald D. Griffin
Formerly Director of NASA's
Johnson Space Center.
Chairman of COMARCO
from 1988 – 1998.

Paul Yovovich
Formerly President and
Chief Operating Officer,
Advance Ross Corporation.

Stockholder Information

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