

## EMRISE CORPORATION

### Condensed Consolidated Balance Sheets

(Unaudited, in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,867	\$ 3,242
Accounts receivable, net of allowances for doubtful accounts of \$203 at September 30, 2009 and \$501 at December 31, 2008	8,187	10,333
Inventories, net	11,926	12,501
Current deferred tax assets	22	271
Prepaid and other current assets	1,185	1,283
Current assets of discontinued operations	-	2,724
Total current assets	25,187	30,354
Property, plant and equipment, net	2,484	2,990
Goodwill	14,220	9,657
Intangible assets other than goodwill, net	5,294	6,618
Deferred tax assets	1,766	2,191
Other assets	248	683
Noncurrent assets of discontinued operations	-	1,130
Total assets	\$ 49,199	\$ 53,623
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,197	\$ 4,625
Accrued expenses	6,279	6,939
Line of credit	4,032	4,084
Current portion of long-term debt, net of discount of \$416	8,549	5,121
Notes payable to stockholders, current portion	375	542
Income taxes payable	662	451
Other current liabilities	2,068	357
Current liabilities of discontinued operations	-	664
Total current liabilities	26,162	22,783
Long-term debt, net of discount of \$980 at December 31, 2008	218	13,479
Notes payable to stockholders, less current portion	2,959	250
Deferred income taxes	1,824	2,203
Warrant liability	641	-
Other liabilities	422	503
Noncurrent liabilities of discontinued operations	-	401
Total liabilities	32,226	39,619

**Commitments and contingencies**

## Stockholders' equity:

Preferred stock,\$0.01 par value. Authorized 10,000,000 shares, zero shares issued and outstanding	-	-
Common stock,\$0.0033 par value. Authorized 150,000,000 shares; 10,213,412 and 10,204,079 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	126	126
Additional paid-in capital	43,444	44,806
Accumulated deficit	(25,030)	(28,101)
Accumulated other comprehensive loss	(1,567)	(2,827)
Total stockholders' equity	16,973	14,004
Total liabilities and stockholders' equity	\$ 49,199	\$ 53,623

**EMRISE CORPORATION****Condensed Consolidated Statements of Operations**

(Unaudited, in thousands, except per share amounts)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net Sales	\$ 14,319	\$ 13,078	\$ 42,802	\$ 35,743
Cost of Sales	8,998	8,685	27,065	24,197
Gross profit	5,321	4,393	15,737	11,546
Operating expenses:				
Selling, general and administrative	4,592	3,522	13,486	10,589
Engineering and product development	733	474	1,971	1,585
Loss on asset impairment	619	-	619	-
Total operating expenses	5,944	3,996	16,076	12,174
Income (loss) from operations	(623)	397	(339)	(628)
Other income (expense):				
Interest income	18	38	87	79
Interest expense	(793)	(816)	(3,191)	(2,004)
Other, net	(24)	(167)	144	(64)
Total other expense, net	(799)	(945)	(2,960)	(1,989)
Loss before income taxes	(1,422)	(548)	(3,299)	(2,617)
Income tax provision (benefit)	(238)	313	(596)	393
Loss from continuing operations	(1,184)	(861)	(2,703)	(3,010)
Discontinued operations:				
Income (loss) from discontinued operations including gain on sale of \$6,995 YTD	(132)	1,194	7,156	2,190
Tax provision (benefit) on discontinued operations	510	-	1,855	-
Net gain (loss) on discontinued operations	(642)	1,194	5,301	2,190
Net Income (loss)	\$ (1,826)	\$ 333	\$ 2,598	\$ (820)
Earnings (loss) per share:				
Basic	\$ (0.18)	\$ 0.03	\$ 0.25	\$ (0.08)
Diluted	\$ (0.18)	\$ 0.03	\$ 0.25	\$ (0.08)
Weighted average shares outstanding				
Basic	10,213	10,201	10,208	10,201
Diluted	10,213	10,201	10,208	10,201

Per share amounts for the periods reported are adjusted to reflect the effect of the 1-for-3.75 reverse split of EMRISE common stock completed after the closing of the markets on November 19, 2008.

## Reconciliation of Adjusted EBITDA to Net Income (Loss)

(Unaudited, in thousands)

	Three months ended		Nine months ended	
	September 30, 2009	2008	September 30, 2009	2008
<b>Net Income (loss) as reported</b>	\$ (1,826 )	\$ 333	\$ 2,598	\$ (820)
<b>Additions:</b>				
Depreciation and amortization	487	274	1,465	744
Stock based compensation	36	28	113	61
Interest expense (income), net	775	778	3,104	1,925
Other expense (income), net	24	167	(144)	64
Income tax expense (benefit)	272	313	1,259	393
Loss from asset impairment	619	-	619	-
<b>Subtractions:</b>				
Net gain (loss) on discontinued operations	(132)	1,194	7,156	2,190
<b>Adjusted EBITDA</b>	<b>\$ 519</b>	<b>\$ 699</b>	<b>\$ 1,858</b>	<b>\$ 177</b>

### Use of Non-GAAP Financial Measures

In evaluating its business, EMRISE considers and uses Adjusted EBITDA as a supplemental measure of its operating performance. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, non-cash stock compensation, and net other income, less net gain or loss on discontinued operations. Management believes that Adjusted EBITDA is a meaningful measure of liquidity and the Company's ability to service debt because it provides a measure of cash available for such purposes. Management provides an Adjusted EBITDA measure so that investors will have the same financial information that management uses with the belief that it will assist investors in properly assessing the Company's performance on a period-over-period basis.

The term Adjusted EBITDA is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Adjusted EBITDA has limitations as an analytical tool, and when assessing the Company's operating performance, investors should not consider Adjusted EBITDA in isolation, or as a substitute for net income (loss) or other consolidated income statement data prepared in accordance with U.S. GAAP. Other companies may calculate similar measures differently than EMRISE, limiting their usefulness as comparative tools. EMRISE compensates for these limitations by relying primarily on its GAAP results and using Adjusted EBITDA only supplementally.