

EMRISE CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net Sales	\$ 6,474	\$ 8,189	\$ 13,566	\$ 16,710
Cost of Sales	4,533	5,527	9,674	11,071
Gross profit	1,941	2,662	3,892	5,639
Operating expenses:				
Selling, general and administrative	2,566	2,905	5,099	5,922
Engineering and product development	402	470	925	839
Total operating expenses	2,968	3,375	6,024	6,761
Loss from operations	(1,027)	(713)	(2,132)	(1,122)
Other income (expense):				
Interest income	32	23	47	69
Interest expense	(746)	(779)	(1,570)	(2,324)
Other, net	147	201	291	159
Total other expense, net	(567)	(555)	(1,232)	(2,096)
Loss before income taxes	(1,594)	(1,268)	(3,364)	(3,218)
Income tax (benefit) provision	(303)	125	(439)	275
Loss from continuing operations	(1,291)	(1,393)	(2,925)	(3,493)
Discontinued and held for sale operations:				
Income from discontinued and held for sale operations including gain on sale in 2009	975	942	1,887	8,630
Tax provision on discontinued and held for sale operations	479	54	709	805
Net income on discontinued and held for sale operations	496	888	1,178	7,825
Net (loss) income	\$ (795)	\$ (505)	\$ (1,747)	\$ 4,332
Weighted average shares outstanding				
Basic	10,213	10,205	10,213	10,205
Diluted	10,213	10,205	10,213	10,205
Earnings (loss) per share:				
Basic				
Continuing operations	\$ (0.13)	\$ (0.14)	\$ (0.29)	\$ (0.34)
Discontinued operations	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.77
Net earnings (loss)	\$ (0.08)	\$ (0.05)	\$ (0.17)	\$ 0.42
Diluted				
Continuing operations	\$ (0.13)	\$ (0.14)	\$ (0.29)	\$ (0.34)
Discontinued operations	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.77
Net earnings (loss)	\$ (0.08)	\$ (0.05)	\$ (0.17)	\$ 0.42

EMRISE CORPORATION
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)

	June 30, 2010	December 31, 2009
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,987	\$ 3,994
Accounts receivable, net of allowances for doubtful accounts of \$125 at June 30, 2010 and \$160 at December 31, 2009	4,228	6,059
Inventories	7,203	8,031
Current deferred tax assets	117	158
Prepaid and other current assets	771	841
Current assets of discontinued and held for sale operations	5,935	6,368
Total current assets	20,241	25,451
Property, plant and equipment, net	784	987
Goodwill	3,484	2,878
Intangible assets other than goodwill, net	1,040	1,107
Deferred tax assets	500	308
Other assets	88	121
Noncurrent assets of discontinued and held for sale operations	18,040	19,425
Total assets	\$ 44,177	\$ 50,277
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,064	\$ 2,734
Accrued expenses	4,102	5,232
Line of credit	3,556	5,156
Current portion of long-term debt, net of discount of \$0 and \$290	7,569	8,109
Notes payable to stockholders, current portion	179	348
Income taxes payable	289	604
Other current liabilities	356	370
Current liabilities of discontinued and held for sale operations	6,619	6,994
Total current liabilities	25,734	29,547
Long-term debt	2,883	2,938
Deferred income taxes	315	144
Other liabilities	1,386	688
Noncurrent liabilities of discontinued and held for sale operations	1,175	1,572
Total liabilities	31,493	34,889
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 10,000,000 shares, no shares issued and outstanding	-	-
Common stock, \$0.0033 par value. Authorized 150,000,000 shares; 10,213,214 issued and outstanding at June 30, 2010 and December 31, 2009	126	126
Additional paid-in capital	43,554	43,480
Accumulated deficit	(28,333)	(26,586)
Accumulated other comprehensive loss	(2,663)	(1,632)
Total stockholders' equity	12,684	15,388
Total liabilities and stockholders' equity	\$ 44,177	\$ 50,277

**Reconciliation of Adjusted EBITDA to Net (Loss) Income
(Unaudited, in thousands)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net (loss) income as reported	\$ (795)	\$ (505)	\$ (1,747)	\$ 4,332
Additions:				
Depreciation and amortization	108	133	227	266
Stock based expense	38	41	74	77
Interest expense (income), net	714	756	1,523	2,255
Other, net	(147)	(201)	(291)	(159)
Income tax (benefit) provision	(303)	125	(439)	275
Subtractions:				
Income from discontinued and held for sale operations	496	888	1,178	7,825
Adjusted EBITDA	\$ (881)	\$ (539)	\$ (1,831)	\$ (779)

Use of Non-GAAP Financial Measures

In evaluating its business, EMRISE considers and uses Adjusted EBITDA as a supplemental measure of its operating performance. EMRISE defines 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.