

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

	Year Ended December 31,	
	2010	2009
Net Sales	\$ 30,561	\$ 34,695
Cost of Sales	21,179	22,788
Gross profit	9,382	11,907
Operating expenses:		
Selling, general and administrative	10,090	11,948
Engineering and product development	1,736	1,796
Employee transaction costs	906	-
Total operating expenses	12,732	13,744
Loss from operations	(3,350)	(1,837)
Other income (expense):		
Interest income	86	98
Interest expense	(1,940)	(4,054)
Other, net	20	433
Gain on extinguishment of debt	295	-
Total other expense, net	(1,539)	(3,523)
Loss before income taxes	(4,889)	(5,360)
Income tax benefit	(297)	(578)
Loss from continuing operations	(4,592)	(4,782)
Discontinued operations:		
Income from discontinued operations including gain (loss) on sale	1,786	7,528
Income tax provision for discontinued operations	615	1,704
Net income from discontinued operations	1,171	5,824
Net (loss) income	\$ (3,421)	\$ 1,042
Weighted average shares outstanding		
Basic	10,647	10,209
Diluted	10,647	10,209
Earnings (loss) per share:		
Basic		
Continuing operations	\$ (0.43)	\$ (0.47)
Discontinued operations	\$ 0.11	\$ 0.57
Net (loss) earnings	\$ (0.32)	\$ 0.10
Diluted		
Continuing operations	\$ (0.43)	\$ (0.47)
Discontinued operations	\$ 0.11	\$ 0.57
Net (loss) earnings	\$ (0.32)	\$ 0.10

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

ASSETS	December 31, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	\$ 3,742	\$ 3,994
Accounts receivable, net of allowances for doubtful accounts of \$152 at December 31, 2010 and \$160 at December 31, 2009	5,573	6,059
Inventories	7,568	8,031
Current deferred tax assets	36	158
Prepaid and other current assets	1,336	841
Current assets of discontinued operations	-	6,368
Total current assets	<u>18,255</u>	<u>25,451</u>
Property, plant and equipment, net	863	987
Goodwill	4,931	2,878
Intangible assets other than goodwill, net	973	1,107
Deferred tax assets	259	308
Other assets	208	121
Noncurrent assets of discontinued operations	-	19,425
Total assets	<u>\$ 25,489</u>	<u>\$ 50,277</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,168	\$ 2,734
Accrued expenses	3,777	5,232
Line of credit	411	5,156
Current portion of long-term debt, net of discount of \$0 and \$290	172	8,109
Notes payable to stockholders, current portion	-	348
Income taxes payable	82	604
Other current liabilities	752	370
Current liabilities of discontinued operations	-	6,994
Total current liabilities	<u>8,362</u>	<u>29,547</u>
Long-term debt	4,092	2,938
Deferred income taxes	141	144
Other liabilities	874	688
Noncurrent liabilities of discontinued operations	-	1,572
Total liabilities	<u>13,469</u>	<u>34,889</u>
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; 10,667,000 and 10,213,000 issued and outstanding at December 31, 2010 and December 31, 2009, respectively	128	126
Additional paid-in capital	44,068	43,480
Accumulated deficit	(30,007)	(26,586)
Accumulated other comprehensive loss	(2,169)	(1,632)
Total stockholders' equity	<u>12,020</u>	<u>15,388</u>
Total liabilities and stockholders' equity	<u>\$ 25,489</u>	<u>\$ 50,277</u>

**Reconciliation of Adjusted Loss from Continuing Operations to
Net (Loss) Income
(Unaudited, in thousands)**

The below table of Adjusted Loss from Continuing Operations reflects all periods presented in the narrative section of this release.

	Year ended December 31,	
	2010	2009
Net (loss) income, as reported	\$ (3,421)	\$ 1,042
Income from discontinued operations	1,171	5,824
Loss from continuing operations, as reported	\$ (4,592)	\$ (4,782)
Adjustments:		
Employee transaction costs	906	-
Other non-recurring transaction costs	583	-
Adjusted loss from continuing operations	\$ (3,103)	\$ (4,782)

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

	Year Ended December 31,	
	2010	2009
Net (loss) income as reported	\$ (3,421)	\$ 1,042
Additions:		
Depreciation and amortization	461	564
Stock-based expense	140	150
Interest expense, net	1,854	3,956
Other, net	(20)	(433)
Income tax benefit	(297)	(578)
Subtractions:		
Net income from discontinued operations	1,171	5,824
Adjusted EBITDA	\$ (2,454)	\$ (1,123)

Use of Non-GAAP Financial Measures

In evaluating its business, EMRISE considers and uses Adjusted EBITDA and Adjusted Loss from Continuing Operations as supplemental measures 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. We define Adjusted Loss from Continuing Operations as net (loss) income excluding income (loss) from discontinued operations, non-recurring employee transaction costs and other non-recurring expenses associated with transaction activities. Management believes that Adjusted Loss from Continuing Operations provides a meaningful trend of operating performance. Management provides an Adjusted EBITDA measure and Adjusted Loss from Continuing Operations 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 terms Adjusted EBITDA and Adjusted Loss from Continuing Operations are not defined under GAAP, and are not measures of operating income, operating performance or liquidity presented in accordance with GAAP. Adjusted EBITDA and Adjusted Loss from Continuing Operations have limitations as analytical tools, and when assessing the Company's operating performance, investors should not consider Adjusted EBITDA and Adjusted Loss from Continuing Operations in isolation, or as a substitute for net income (loss) or loss from continuing operations other consolidated income statement data prepared in accordance with 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 and Adjusted Loss from Continuing Operations only supplementally.