

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

ASSETS	March 31, 2009 (Unaudited)	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 3,629	\$ 3,242
Accounts receivable, net of allowances for doubtful accounts of \$127 at March 31, 2009 and \$501 at December 31, 2008	9,475	10,333
Inventories, net	12,300	12,501
Current deferred tax assets	175	271
Prepaid and other current assets	1,544	1,283
Current assets of discontinued operations	-	2,724
Total current assets	27,123	30,354
Property, plant and equipment, net		
	2,788	2,990
Goodwill	9,544	9,657
Intangible assets other than goodwill, net	6,344	6,618
Deferred tax assets	1,916	2,191
Other assets	540	693
Noncurrent assets of discontinued operations	-	1,130
Total assets	\$ 48,235	\$ 53,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,739	\$ 4,625
Accrued expenses	6,454	6,939
Line of credit	4,068	4,064
Current portion of long-term debt	1,985	5,121
Notes payable to stockholders, current portion	500	542
Income taxes payable	1,270	451
Other current liabilities	357	357
Current liabilities of discontinued operations	-	664
Total current liabilities	20,373	22,783
Long-term debt, net of discount of \$853 and \$980, respectively	6,569	13,479
Notes payable to stockholders, less current portion	125	250
Deferred income taxes	1,927	2,203
Warrant liability	890	-
Other liabilities	476	503
Noncurrent liabilities of discontinued operations	-	401
Total liabilities	30,350	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, 10,204,079 shares issued and outstanding at March 31, 2009 and December 31, 2008	126	126
Additional paid-in capital	43,359	44,806
Accumulated deficit	(22,355)	(28,101)
Accumulated other comprehensive loss	(3,245)	(2,827)
Total stockholders' equity	17,885	14,004
Total liabilities and stockholders' equity	\$ 48,235	\$ 53,623

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

	Three Months Ended	
	March 31,	
	2009	2008
Net Sales	\$ 14,213	\$ 10,643
Cost of Sales	<u>9,256</u>	<u>7,203</u>
Gross profit	4,957	3,440
Operating expenses:		
Selling, general and administrative	4,547	3,538
Engineering and product development	<u>522</u>	<u>503</u>
Total operating expenses	<u>5,069</u>	<u>4,041</u>
Loss from operations	(112)	(601)
Other income (expense):		
Interest income	46	18
Interest expense	(1,015)	(584)
Other, net	<u>(42)</u>	<u>(17)</u>
Total other expense, net	<u>(1,011)</u>	<u>(583)</u>
Loss before income taxes	(1,123)	(1,184)
Income tax provision	<u>(350)</u>	<u>84</u>
Loss from continuing operations	(773)	(1,268)
Discontinued operations:		
Income from discontinued operations		
including gain on sale of \$7,224	7,402	371
Tax provision on discontinued operations	<u>1,356</u>	<u>-</u>
Net gain on discontinued operations	6,046	371
Net Income (loss)	<u>\$ 5,273</u>	<u>\$ (897)</u>
Earnings (loss) per share:		
Basic	<u>\$ 0.52</u>	<u>\$ (0.09)</u>
Diluted	<u>\$ 0.51</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding		
Basic	<u>10,204</u>	<u>10,204</u>
Diluted	<u>10,239</u>	<u>10,204</u>

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

Net income (loss) as reported	\$ 5,273	\$ (897)
Additions:		
Depreciation and amortization	502	288
Stock based compensation	34	18
Interest expense (income), net	969	566
Other expense (income), net	42	17
Income tax expense (benefit)	(350)	84
Subtractions:		
Net gain on discontinued operations	6,046	371
Adjusted EBITDA	<u>\$ 424</u>	<u>\$ (295)</u>

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 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.