

Emrise CORP
Form 10-Q
August 07, 2008
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**
EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-10346

EMRISE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

77-0226211

(I.R.S. Employer
Identification No.)

9485 Haven Avenue, Suite 100

Rancho Cucamonga, California 91730

(Address of principal executive offices) (Zip code)

(909) 987-9220

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer (Do not check if Smaller Reporting Company) ☐

Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the Registrant's common stock, \$0.0033 par value, as of August 1, 2008 was 38,254,250.

Table of Contents

EMRISE CORPORATION

TABLE OF CONTENTS

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

PART I
FINANCIAL INFORMATION

ITEM 1. **FINANCIAL STATEMENTS**

<u>Condensed Consolidated Balance Sheets as of June 30, 2008 (unaudited) and December 31, 2007</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2008 and 2007 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2008 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007 (unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5

<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	12
-----------------------	---	----

<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	26
-----------------------	--	----

<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	26
-----------------------	---------------------------------------	----

<u>ITEM 4T.</u>	<u>CONTROLS AND PROCEDURES</u>	26
------------------------	---------------------------------------	----

PART II
OTHER INFORMATION

<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	29
-----------------------	---------------------------------	----

<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	29
------------------------	----------------------------	----

<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	29
-----------------------	---	----

<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	29
-----------------------	---	----

<u>ITEM 4.</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	29
-----------------------	---	----

<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	29
-----------------------	---------------------------------	----

<u>ITEM 6.</u>	<u>EXHIBITS</u>	30
<u>SIGNATURES</u>		31

[Table of Contents](#)**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****EMRISE CORPORATION****Condensed Consolidated Balance Sheets**

(in thousands, except share and per share amounts)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,942	\$ 4,764
Accounts receivable, net of allowances for doubtful accounts of \$292 at June 30, 2008 and \$345 at December 31, 2007	8,976	9,406
Inventories, net	12,059	11,664
Current deferred tax assets	333	200
Prepaid and other current assets	1,578	1,617
Total current assets	24,888	27,651
Property, plant and equipment, net	2,337	2,227
Goodwill	13,078	13,129
Intangible assets other than goodwill, net	3,165	3,269
Deferred tax assets	610	617
Other assets	1,160	1,287
Total assets	\$ 45,238	\$ 48,180
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,938	\$ 4,440
Accrued expenses	5,039	5,435
Current portion of long-term debt	176	71
Notes payable to stockholders, current portion	500	521
Income taxes payable	267	712
Other current liabilities	357	357
Total current liabilities	11,277	11,536
Long-term line of credit	2,007	3,957
Long-term debt, net of discount of \$1,047 and \$1,264, respectively	5,250	4,829
Notes payable to stockholders, less current portion	500	750
Deferred income taxes	904	904
Other liabilities	1,151	1,158
Total liabilities	21,089	23,134
Commitments and contingencies (See Note 7)		

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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; 38,254,000 and 38,254,000 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively

	126	126
Additional paid-in capital	44,560	44,527
Accumulated deficit	(21,814)	(20,661)
Accumulated other comprehensive income	1,277	1,054
Total stockholders' equity	24,149	25,046
Total liabilities and stockholders' equity	\$ 45,238	\$ 48,180

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales	\$ 14,049	\$ 12,067	\$ 26,296	\$ 23,989
Cost of Sales	9,060	7,991	16,898	16,065
Gross profit	4,989	4,076	9,398	7,924
Operating expenses:				
Selling, general and administrative	4,006	3,849	7,981	7,585
Engineering and product development	782	665	1,446	1,375
Total operating expenses	4,788	4,514	9,427	8,960
Income (loss) from operations	201	(438)	(29)	(1,036)
Other income (expense):				
Interest income	23	36	41	55
Interest expense	(604)	(170)	(1,188)	(320)
Other, net	120	100	103	165
Total other income (expense), net	(461)	(34)	(1,044)	(100)
Loss before income taxes	(260)	(472)	(1,073)	(1,136)
Income tax provision (benefit)	(4)	151	80	279
Net Loss	\$ (256)	\$ (623)	\$ (1,153)	\$ (1,415)
Loss per share:				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Weighted average shares outstanding				
Basic	38,254	38,141	38,254	38,130
Diluted	38,254	38,141	38,254	38,130

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents

EMRISE CORPORATION

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)
(in thousands)

	Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2007	38,254	\$ 126	\$ 44,527	\$ (20,661)	\$ 1,054	\$ 25,046
Stock-based compensation			29			29
Warrants issued for services			4			4
Net loss and comprehensive income				(1,153)	223	(930)
Balance at June 30, 2008	38,254	\$ 126	\$ 44,560	\$ (21,814)	\$ 1,277	\$ 24,149

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**EMRISE CORPORATION****Condensed Consolidated Statements of Cash Flows**(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,153)	\$ (1,415)
Reconciliation to net cash provided by (used in) operating activities:		
Depreciation and amortization	544	541
Provision for doubtful accounts	(53)	(93)
Provision for inventory obsolescence	429	517
Provision for warranty reserve	8	
Deferred taxes	(126)	(3)
Amortization of deferred issuance costs	216	
Amortization of debt discount	216	
Stock-based compensation expense	29	42
Warrants issued for services	4	3
Changes in assets and liabilities:		
Accounts receivable	483	1,089
Inventories	(824)	(1,415)
Prepaid and other assets	(50)	(295)
Accounts payable and accrued expenses	(358)	1,184
Total adjustments	518	1,570
Net cash provided by (used in) operating activities	(635)	155
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(64)	(427)
Additions to intangible assets	(23)	
Net cash used in investing activities	(87)	(427)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (repayments) of lines of credit	(1,950)	(293)
Repayments of long-term debt	(143)	(247)
Payments of notes to stockholders	(271)	(250)
Proceeds from exercise of stock options and warrants		22
Net cash used in financing activities	(2,364)	(768)
Effect of exchange rate changes on cash	264	62
Net decrease in cash and cash equivalents	(2,822)	(978)
Cash and cash equivalents at beginning of period	4,764	3,802
Cash and cash equivalents at end of period	\$ 1,942	\$ 2,824
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of equipment through capital lease	\$ 453	\$

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents

EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

EMRISE Corporation (the Company) designs, manufactures and markets proprietary electronic devices and communications equipment for aerospace, defense, industrial, and communications applications. The Company has operations in the United States (U.S.), England, France and Japan. The Company conducts its business through two operating segments: electronic devices and communications equipment. The subsidiaries within the electronic devices segment design, develop, manufacture and market electronic devices for defense, aerospace and industrial markets and operate out of facilities located in the U.S., England and Japan. The subsidiaries within the communications equipment segment design, develop, manufacture and market network access equipment and network timing and synchronization products and operate out of facilities located in the U.S. and France.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (Commission) and therefore do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the U.S. (GAAP). The year end balance sheet was derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements do, however, reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary to state fairly the financial position as of June 30, 2008 and the results of operations and cash flows for the related interim periods ended June 30, 2008 and 2007. However, these results are not necessarily indicative of results for any other interim period or for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its annual report on Form 10-K for the year ended December 31, 2007 as filed with the Commission.

Comprehensive Loss

Comprehensive loss includes all changes in equity during a period except those that resulted from investments by or distributions to the Company's stockholders. Other comprehensive income refers to revenues, expenses, gains and losses that, under GAAP, are included in comprehensive income, but excluded from net loss as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income consists of foreign currency translation adjustments. The following table reflects the components of comprehensive loss (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net loss	\$ (256)	\$ (623)	\$ (1,153)	\$ (1,415)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(3)	197	223	174
Comprehensive loss	\$ (259)	\$ (426)	\$ (930)	\$ (1,241)

Table of Contents**EMRISE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Loss Per Share*

Basic loss per share is computed by dividing net loss by the weighted average common shares outstanding during a period. Diluted loss per share is based on the treasury stock method and includes the dilutive effect of stock options and warrants outstanding during the period. Common share equivalents have been excluded where their inclusion would be anti-dilutive. As a result of the loss incurred by the Company for all periods presented, the potentially dilutive common shares have been excluded because their inclusion would have been anti-dilutive. The following table illustrates the computation of basic and diluted loss per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
NUMERATOR:				
Net loss	\$ (256)	\$ (623)	\$ (1,153)	\$ (1,415)
DENOMINATOR:				
Basic weighted average common shares outstanding	38,254	38,141	38,254	38,130
Effect of dilutive securities:				
Dilutive stock options and warrants				
Diluted weighted average common shares outstanding	38,254	38,141	38,254	38,130
Basic loss per share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)
Diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.04)

The following table shows the common stock equivalents that were outstanding as of June 30, 2008 and 2007, but were not included in the computation of diluted earnings per share as a result of the loss incurred by the Company or because the options or warrants exercise price was greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive:

	Number of Shares	Range of Exercise Price Per Share
Anti-dilutive common stock options:		
As of June 30, 2008	1,056,000	\$0.20 \$2.00
As of June 30, 2007	1,943,000	\$0.20 \$3.13

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Anti-dilutive common stock warrants:

As of June 30, 2008	6,742,000	\$1.10	\$1.73
As of June 30, 2007	4,192,000	\$0.85	\$2.00

Table of Contents

EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material effect on the Company's financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This new statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy, with the highest priority being quoted prices in active markets. The required effective date of SFAS No. 157 is the first quarter of 2008. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material effect on the Company's consolidated financial statements, but resulted in additional disclosures contained herein. In February 2008, the FASB issued Staff Position No. 157-2, which delayed by one year the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently evaluating the impact the adoption of SFAS No. 157 for non-financial assets and liabilities will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The new standard amends SFAS No. 133 and seeks to enhance disclosure about how and why a company uses derivative and hedging activities, how derivative instruments and related hedged items are accounted for under SFAS No. 133 (and the interpretations of that standard) and how derivatives and hedging activities affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 is not expected to have a material effect on the Company's consolidated financial statements.

NOTE 2 STOCK-BASED COMPENSATION

The Company has five stock option plans:

- Employee Stock and Stock Option Plan, effective July 1, 1994;

- 1993 Stock Option Plan;
- 1997 Stock Incentive Plan;
- Amended and Restated 2000 Stock Option Plan; and
- 2007 Stock Incentive Plan.

The board of directors does not intend to issue any additional options under any of the above plans with the exception of the 2007 Stock Incentive Plan.

Total stock-based compensation expense included in wages, salaries and related costs was \$11,000 and \$6,000 for the three months ended June 30, 2008 and 2007, respectively, and \$29,000 and \$42,000 for the six months ended June 30, 2008 and 2007, respectively. These compensation expenses were charged to selling, general and administrative expenses. As of June 30, 2008, the Company had \$19,000 of total unrecognized

Table of Contents**EMRISE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

compensation expense related to stock option grants, which will be recognized over the remaining weighted average period of two years.

NOTE 3 INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value) and consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Raw materials	\$ 10,284	\$ 9,292
Work-in-process	4,077	4,540
Finished goods	4,251	3,956
Reserves	(6,553)	(6,124)
Total inventories	\$ 12,059	\$ 11,664

NOTE 4 OPERATING SEGMENTS

The Company has two reportable operating segments: electronic devices and communications equipment. The electronic devices segment manufactures and markets digital and rotary switches, electronic power supplies, radio frequency (RF) and microwave devices and subsystem assemblies. The electronic devices segment consists of EMRISE Electronics Corporation and its subsidiaries located in the U.S., England and Japan, which offer the same or similar products to similar customers. The communications equipment segment designs, manufactures and distributes network access products and timing and synchronization products. The communications equipment segment consists of operating entities CXR Larus Corporation located in the U.S. and CXR Anderson Jacobson located in France, which offer the same or similar products to similar customers. Both segments operate in the U.S., European and Asian markets, but have distinctly different customers, design and manufacturing processes and marketing strategies. Each segment has discrete financial information and a separate management structure.

The Company evaluates performance based upon profit or loss from operations before income taxes exclusive of nonrecurring gains and losses. The Company accounts for intersegment sales at pre-determined prices negotiated between the individual segments.

There were no differences in the basis of segmentation or in the basis of measurement of segment operating income or loss from the amounts disclosed in the Company's audited consolidated financial statements included in its annual report on Form 10-K for the year ended

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December 31, 2007. Included in the Company's reconciliation of segment financial data to the consolidated amounts is unallocated corporate expenses.

Table of Contents**EMRISE CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Selected financial data for each of the Company's operating segments reconciled to the consolidated totals is shown below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<u>Net sales</u>				
Electronic devices	\$ 10,187	\$ 8,440	\$ 19,074	\$ 16,967
Communications equipment	3,862	3,627	7,222	7,022
Total	\$ 14,049	\$ 12,067	\$ 26,296	\$ 23,989
<u>Operating income (loss)</u>				
Electronic devices	\$ 1,288	\$ 536	\$ 2,112	\$ 1,076
Communications equipment	(90)	(82)	(72)	(197)
Corporate and other	(997)	(892)	(2,069)	(1,915)
Total	\$ 201	\$ (438)	\$ (29)	\$ (1,036)

	June 30, 2008	December 31, 2007
<u>Total assets</u>		
Electronic devices	\$ 30,963	\$ 29,835
Communications equipment	11,523	11,851
Corporate and other	2,752	6,494
Total	\$ 45,238	\$ 48,180

NOTE 5 GOODWILL

The following table reflects changes in our goodwill balances, by segment, for the six months ended June 30, 2008 (in thousands):

	Electronic Devices	Communications Equipment	Total
Balance at December 31, 2007	\$ 7,295	\$ 5,834	\$ 13,129
Foreign currency translation	(51)		(51)
Balance at June 30, 2008	\$ 7,244	\$ 5,834	\$ 13,078

Table of Contents

EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6 INCOME TAXES

The effective tax rate for the three month period ended June 30, 2008 was different than the 34% U.S. statutory rate primarily because the Company's foreign entities generate a tax obligation and related tax expense as a result of their net income, which cannot be offset by U.S. tax loss carryforwards.

The Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, on January 1, 2007. The implementation of FIN 48 did not result in a material adjustment to the Company's liability for unrecognized income tax benefits. At the time of adoption and as of June 30, 2008, the Company had recorded no net unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in interest expense and selling, general and administrative expense, respectively, in the condensed consolidated statements of operations and comprehensive income. No interest or penalties were recognized during the second quarter of 2008. As of June 30, 2008, the Company had \$0 accrued for interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction, England, France and Japan, and in the state jurisdictions of California, Texas, Pennsylvania and New Jersey. The Company is no longer subject to United States federal and state tax examinations for years before 2004 and 2003, respectively, and is no longer subject to tax examinations for England and Japan for years prior to 2006, and for France for years prior to 2004.

NOTE 7 LINES OF CREDIT

The Company and its direct subsidiaries, EMRISE Electronics Corporation, CXR Larus Corporation and RO Associates Incorporated (collectively, the Borrowers) are parties to a Credit Agreement (the Credit Agreement) with GVEC Resource IV Inc. (the Lender) providing for a three year credit facility in the aggregate amount of \$23,000,000 (the Credit Facility) and is secured by accounts receivable, other rights to payment and general intangibles, inventories and equipment.

The Credit Facility consists of (i) a one year revolving credit facility for up to \$7,000,000 that may be extended, at the Company's option, for up to three years (the Revolver), (ii) a three year term loan in an outstanding principal amount of \$6,000,000 which was fully funded on November 30, 2007 (the Term Loan A); and (iii) a three year term loan in the amount of \$10,000,000 to be used solely for possible acquisitions to be made within 18 months of November 30, 2007 (the Term Loan B, and together with the Term Loan A, the Term Loans). A portion of the

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proceeds from the Revolver and the Term Loan A were used to repay existing institutional debt at the time of the closing of the financing and a portion was used to fund the Company's on-going working capital requirements.

The Revolver is formula-based and which generally provides that the outstanding borrowings under the line of credit may not exceed an aggregate of 85% of eligible accounts receivable, plus 10% of the value of eligible raw materials not to exceed \$600,000, plus 50% of the value of eligible finished goods inventory not to exceed \$1,500,000, minus the aggregate amount of reserves that may be established by the Lender.

Interest on the Revolver is payable monthly. The interest rate is variable and is adjusted monthly based on prime rate as published in the Money Rates column of *The Wall Street Journal* (the Base Rate) plus 1.25%, subject to a minimum rate of 9.5%. The interest rate in effect as of June 30, 2008 was the minimum rate of 9.5%. The Revolver is subject to various financial covenants on a consolidated basis including the following: EBITDA, measured on a fiscal quarter-end basis, must not be less than the scheduled amount for each specified period; the debt service coverage ratio, measured quarterly, must be greater than the lesser of the scheduled amount for each specific period or 1.10:1.00; the leverage ratio, measured quarterly, must not be greater than 1.25:1.00; and the Company must not incur capital expenditures in any fiscal year in excess of \$500,000. As of

Table of Contents

EMRISE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

June 30, 2008, the Company was in default of the capital expenditure limitation described above; which default has been waived by the Lender.

As of June 30, 2008, the Company had outstanding borrowings of \$2.0 million under the Revolver with remaining availability under the formula-based calculation of \$4.0 million.

Upon the sale or disposition by the Borrowers or any of their subsidiaries of property or assets, the Borrowers may be obligated to prepay the Revolver and the Term Loans with the net cash proceeds received in connection with such sales or dispositions to the extent that the aggregate amount of net cash proceeds received, and not paid to the Lender as a prepayment, for all such sales or dispositions exceed \$150,000 in any fiscal year.

In the event of a default and continuation of a default, the Lender may accelerate the payment of the principal balance requiring the Company to pay the entire indebtedness outstanding on that date. Upon the occurrence and during the continuation of an event of default, the Lender may also elect to increase the interest rate applicable to the outstanding balance by four percentage points above the per annum interest rate that would otherwise be applicable.

In connection with entering into the Credit Agreement, the Borrowers issued a Revolver Loan Note dated November 30, 2007 (the Revolver Note) to the Lender in the principal amount of \$7,000,000. The Revolver Note is governed by the terms of the Credit Agreement.

NOTE 8 FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The effective date of the statement is for all entities with fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. 157-2, which delays the effective date of SFAS No. 157 for non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The delay pertains to items including, but not limited to, goodwill and other intangible assets. The Company adopted the provisions of the standard that were effective as of January 1, 2008. The Company plans to adopt the remaining provisions of SFAS No. 157 as of January 1, 2009.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between three levels of

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inputs that may be utilized when measuring fair value as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 Inputs that are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

As of June 30, 2008, the Company did not have financial assets and liabilities measured at fair value on a recurring basis that would be subject to the disclosure provisions of SFAS No. 157.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto contained in Part I, Item 1 of this Report. The information contained in this Quarterly Report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this Report and in our other reports filed with SEC, including our Annual Report on Form 10-K for the year ended December 31, 2007 and subsequent reports on Forms 10-Q and 8-K, which discuss our business in greater detail. This report and the following discussion contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business and growth strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including, without limitation:

- the projected growth or contraction in the electronic devices and communications equipment markets in which we operate;
- our strategies for expanding, maintaining or contracting our presence in these markets;
- anticipated trends in our financial condition and results of operations;
- our ability to distinguish ourselves from our current and future competitors;
- our ability to secure long term purchase orders;
- our ability to deliver against existing or future backlog;
- technical or quality issues experienced by us, our suppliers and/or our customers;
- failure to comply with existing or future government or industry standards and regulations;
- exposure to and impacts of various international risks including legal, business, political and economic risks associated with our international operations;
- our ability to adequately fund the working capital needs of the company
- our ability to successfully locate, acquire and integrate any possible future acquisitions;
- our ability to successfully support the working capital needs of our company; and
- our ability to successfully compete against competitors that in many cases are larger than us, have access to

significantly more working capital than us and have significant resources in comparison to us.

We do not undertake to update, revise or correct any forward-looking statements.

Any of the factors described above or in the Risk Factors section contained in our Annual Report on Form 10-K for the year ended December 31, 2007 could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

Business Description

EMRISE designs, manufactures and markets proprietary electronic devices and communications equipment for aerospace, defense, industrial, and communications applications. We have operations in the United States (U.S.), England, France and Japan. We conduct our business through two operating segments: electronic devices and communications equipment. Our subsidiaries within our electronic devices segment design, develop, manufacture and market electronic devices for defense, aerospace and industrial markets. Our subsidiaries within our communications equipment segment design, develop, manufacture and market network access equipment and network timing and synchronization products, for the communications industry.

Table of Contents

Our electronic devices segment produces a range of power systems, RF and microwave devices and electromechanical switches. The electronic devices segment is project driven with the majority of revenues being derived from custom products with long life cycles and high barriers to entry. The majority of manufacturing and testing is performed in-house or through sub-contract manufacturers. Our electronic devices are used in a wide range of military airborne, seaborne and land-based systems, in-flight entertainment systems, including the latest next generation in-flight entertainment and communications (IFE&C) systems such as applications for mobile phone, e-mail and internet communications and real time, on-board satellite and broadcast television which are being retrofitted in existing commercial aircraft and installed in today's growing fleet of new commercial aircraft.

Our communications equipment segment produces a range of network access products and network timing and synchronization products, for public and private communications customers. The communications equipment segment is end user product based with a traditional cycle of internally funded development and marketing prior to selling via direct and indirect sales channels. Manufacturing is primarily outsourced. Our communications equipment is used in a broad range of applications for military (defense and homeland security), utility companies and regional and national communications carriers.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net sales and expenses for each period. The following represents a summary of our critical accounting policies, defined as those policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Revenue Recognition

We derive revenues from sales of electronic devices and communications equipment products and services. Our sales are based upon written agreements or purchase orders that identify the type and quantity of the item and/or services being purchased and the purchase price. We recognize revenues when shipment of products has occurred or services have been rendered, no significant obligations remain on our part, and collectability is reasonably assured based on our credit and collections practices and policies.

We recognize revenues from U.S. sales of our electronic devices and communications equipment at the point of shipment of those products. An estimate of warranty costs are recorded at the time the revenue is recognized. Product returns are infrequent and require prior authorization because our sales are final and we quality test our products prior to shipment to ensure the products meet the specifications of the binding purchase orders under which those products are shipped. Normally, when a customer requests and receives authorization to return a product, the request is accompanied by a purchase order for a repair or for a replacement product.

Revenue recognition for products and services provided by our subsidiaries in England depends upon the type of contract involved. Engineering/design services contracts generally entail design and production of a prototype over a term of up to several years, with revenue

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deferred until each milestone defined in the contract is reached. Production contracts provide for a specific quantity of products to be produced over a specific period of time. Customers issue binding purchase orders or enter into binding agreements for the products to be produced. We recognize revenues on these orders as the products are shipped. Returns are infrequent and permitted only with prior authorization because these products are custom made to order based on binding purchase orders and are quality tested prior to shipment. An estimate of warranty costs are recorded at the time revenue is recognized.

We recognize revenues for products sold by our French subsidiary at the point of shipment. Customer discounts are included in the product price list provided to the customer. Returns are infrequent and permitted

Table of Contents

only with prior authorization because these products are shipped based on binding purchase orders and are quality tested prior to shipment. An estimate of warranty costs are recorded at the time revenue is recognized.

Revenues from services such as repairs and modifications are recognized when the service is completed and invoiced. For repairs that involve shipment of a repaired product, we recognize repair revenues when the product is shipped back to the customer. Service revenues contribute less than 5% of total revenue and, therefore, are considered to be immaterial to overall financial results.

Product Warranty Liabilities

Generally, our products carry a standard one-year, limited parts and labor warranty. In certain circumstances, we provide a two-year limited parts and labor warranty on our communications test instruments and network access products. We offer extended warranties beyond two years for an additional cost to our customers. Products returned under warranty typically are tested and repaired or replaced at our option. Historically, we have not experienced significant warranty costs or returns.

We record a liability for estimated costs that we expect to incur under our basic limited warranties when product revenue is recognized. Factors affecting our warranty liability include the number of units sold, historical and anticipated rates of claim and costs per claim. We periodically assess the adequacy of our warranty liability accrual based on changes in these factors.

Inventory Valuation

Our finished goods electronic devices inventories generally are built to order. Our communications equipment inventories generally are built to forecast, which requires us to produce a larger amount of finished goods in our communications equipment business so that our customers can be served promptly. Our products consist of numerous electronic and other parts, which necessitates that we exercise detailed inventory management. We value our inventory at the lower of the actual cost to purchase or manufacture the inventory (first-in, first-out) or the current estimated market value of the inventory (net realizable value). We perform cycle counts of inventories using an ABC inventory methodology, which groups inventory items into cycle counting categories, or conduct physical inventories at least once a year. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements for the next 12 to 24 months. Additionally, to determine inventory write-down provisions, we review product line inventory levels and individual items as necessary and periodically review assumptions about forecasted demand and market conditions. Any inventory that we determine to be obsolete, either in connection with the physical count or at other times of observation, are reserved for and subsequently written-off. As of June 30, 2008, our total inventory reserves amounted to \$6.6 million of which \$4.7 million, representing 25% of total inventory, related to our electronic devices segment and \$1.9 million, representing 10% of total inventory, related to our communications equipment segment.

The communications equipment industry is characterized by rapid technological change, frequent new product development, and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. The electronic devices industry is characterized by the demand for long-term product stability and a rapidly changing market for the components and materials we use in our products, which could result in an increase in the amount of obsolete inventory

quantities on hand. Also, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

Foreign Currency Translation

We have foreign subsidiaries that together accounted for approximately 69.7% and 69.9% of our net revenues, 42.6% and 58.6% of our assets and 40.1% and 53.9% of our total liabilities as of and for the six months ended June 30, 2008 and 2007, respectively. In preparing our consolidated financial statements, we are required

Table of Contents

to translate the financial statements of our foreign subsidiaries from the functional currencies in which they keep their accounting records into U.S. dollars. Assets and liabilities denominated in foreign currencies were translated into U.S. dollars (the reporting currency) at the exchange rate prevailing at the balance sheet date, (translation adjustments). Equity accounts denominated in foreign currencies were translated into U.S. dollars at historical exchange rates. Revenues and expenses denominated in foreign currencies were translated into U.S. dollars at the monthly average exchange rate for the period. Gains and losses resulting from foreign currency transactions are included in the results of operations within our statement of operations under the caption other income (expense). Translation adjustments are reported as an element of other comprehensive income, which is a component of equity on the balance sheet.

Under relevant accounting guidance, the treatment of these translation gains or losses depends upon our management's determination of the functional currency of each subsidiary. This determination involves consideration of relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures, would be considered the functional currency. However, management must also consider any dependency of the subsidiary upon the parent and the nature of the subsidiary's operations.

If management deems any subsidiary's functional currency to be its local currency, then any gain or loss associated with the translation of that subsidiary's financial statements is included as a separate component of stockholders' equity in accumulated other comprehensive income (loss). However, if management deems the functional currency to be U.S. dollars, then any gain or loss associated with the translation of these financial statements would be included in other income (expense) within our statement of operations.

If we dispose of any of our subsidiaries, any cumulative translation gains or losses associated with that entity would be realized into our statement of operations. If we determine that there has been a change in the functional currency of a subsidiary to U.S. dollars, then any translation gains or losses arising after the date of the change would be included within our statement of operations.

Based on our assessment of the factors discussed above, we consider the functional currency of each of our international subsidiaries to be each subsidiary's local currency. Accordingly, we had cumulative translation gains of \$1.3 million and \$1.1 million that were included as part of accumulated other comprehensive income within our balance sheets at June 30, 2008 and December 31, 2007, respectively. During the three months ended June 30, 2008 and 2007, we included a translation loss of \$3,000 and gain of \$197,000, respectively, and during the six months ended June 30, 2008 and 2007 we included translation gains of \$223,000 and \$174,000, respectively, under accumulated other comprehensive income.

If we had determined that the functional currency of our subsidiaries was U.S. dollars, these gains or losses would have decreased or increased our net loss for the three months ended June 30, 2008 and 2007. The magnitude of these gains or losses depends upon movements in the exchange rates of the foreign currencies in which we transact business as compared to the value of the U.S. dollar. These currencies include the euro, the British pound sterling and, to a lesser extent, the Japanese yen. Any future translation gains or losses could be significantly higher or lower than those we recorded for these periods.

A 2.5 million British pound sterling loan payable from one of our subsidiaries in England to EMRISE was outstanding as of June 30, 2008 (\$5.0 million based on the exchange rate at June 30, 2008). Exchange rate losses and gains on the long-term portion of this loan are recorded in cumulative translation gains or losses in the equity section of the balance sheet.

Intangibles, Including Goodwill

We periodically evaluate our intangibles, including goodwill, for potential impairment. Our judgments regarding the existence of impairment are based on legal factors, market conditions and operational performance of our acquired businesses.

Table of Contents

In assessing potential impairment of goodwill, we consider these factors as well as forecasted financial performance of the acquired businesses. If forecasts are not met, we may have to record additional impairment charges not previously recognized. In assessing the recoverability of our goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of those respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets that were not previously recorded. If that were the case, we would have to record an expense in order to reduce the carrying value of our goodwill. Under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets , we are required to analyze our goodwill for impairment issues at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. At June 30, 2008, our reported goodwill totaled \$13.1 million. During the six months ended June 30, 2008, we did not record any impairment losses related to goodwill and other intangible assets.

Overview

The majority of our products are customized to the unique specifications of our customers and are subject to variable timing of delivery. Shipments of products can be accelerated or delayed due to many reasons including, but not limited to, exceeding or not meeting customer contract requirements, a change in customer timing or specifications, technology related issues and production related issues. Comparability of our revenues and gross profit is difficult from period to period as we typically do not have recurring orders. Exceptions to this include U.S. government stocking orders, foreign military contracts and certain long-term telecommunications contracts. As an example of this variability in revenues, we had orders that we planned to ship for approximately \$1.1 million of products in the first quarter of 2008 that did not ship due to a combination of customer and production related delays. The majority of these orders shipped in the second quarter of 2008 resulting in lower sales in the first quarter, but higher sales in the second quarter.

Overall sales increased 16.4% and 9.6% in the three and six months ended June 30, 2008, respectively, as compared to the same periods in 2007. Sales for our electronic devices segment increased 21% and 12% for the three and six month periods in 2008, respectively, as compared to the same periods in 2007 with increases generated from all of our electronic devices subsidiaries. Sales for our communications equipment segment increased 7% and 3% for the three and six month periods in 2008, respectively, as compared to the same periods in 2007. Units shipped at both of our communications equipment subsidiaries remained relatively consistent with prior year periods, however, the effect of exchange rates between the euro and the U.S. dollar on the translation of our French operations had a favorable impact on the sales within this segment. We expect to continue to experience quarter over quarter increases in sales for the remainder of 2008 with total 2008 sales approaching \$60 million. However, the impact of exchange rates remains an uncertainty and could negatively or positively impact our overall results in future periods.

Overall gross margins increased to 35.5% and 35.7% in the three and six months ended June 30, 2008, respectively, from 33.8% and 33.0% in the three and six months ended June 30, 2007, respectively. The improvement in gross margin is primarily due to favorable changes in product mix, particularly at our U.S. electronic devices subsidiaries and both of our communications equipment subsidiaries. Overall margins were also positively impacted as a result of translating foreign unit financial results from local (foreign) currencies to U.S. dollars due to the favorable exchange rate between the U.S. dollar, the British pound sterling and the euro compared to the prior year. We expect gross margin levels for the second half of 2008 to be higher than gross margin levels in the first half of 2008, excluding the possible impact, favorable or unfavorable, of exchange rates on the translation of foreign operating unit financial results.

While we continue to incur net losses, we have decreased the amount of these losses as compared to the prior year periods. We have overcome many of the factors that contributed to our 2007 period losses including shipping delays to the Defense Logistics Agency (DLA), the consolidation of our RO Associates Incorporated (RO) facility with our CXR Larus Corporation facility and the subsequent transition of RO manufacturing to a contract manufacturer, which initially resulted in additional costs and significant shipping and manufacturing delays. We continue to make efficiency improvements in operations and we have resumed increased shipments of RO products and more regular shipments to the DLA. We incurred a net loss of \$0.3 million for the three months

Table of Contents

ended June 30, 2008 compared to a net loss of \$0.6 million for the three months ended June 30, 2007. We incurred a net loss of \$1.2 million for the six months ended June 30, 2008 compared to a net loss of \$1.4 million for the six months ended June 30, 2007.

The following is a more detailed discussion of our results of operations by segment.

Results of Operations*Comparison of the Three Months Ended June 30, 2008 to the Three Months Ended June 30, 2007***Net Sales**

(in thousands)	Three Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Electronic devices	\$ 10,187	\$ 8,440	\$ 1,747	20.7%
as % of net sales	72.5%	69.9%		
Communications equipment	3,862	3,627	235	6.5%
as % of net sales	27.5%	30.1%		
Total net sales	\$ 14,049	\$ 12,067	\$ 1,982	16.4%

Electronic Devices Segment

The increase in sales of our electronic devices in the second quarter of 2008 as compared to the second quarter of 2007 was primarily the result of a \$0.8 million, or 20%, increase in sales at our Pascall Electronics Ltd. (Pascall) subsidiary in England due primarily to shipments of our new IFE&C products. Also contributing to the increase in sales was a \$0.8 million, or 31%, increase in sales at our U.S. electronic device subsidiaries as a result of higher levels of shipments of U.S. government orders for digital switches to satisfy our existing backlog for the DLA and improved sales at our RO subsidiary. Second quarter 2007 sales at RO were negatively impacted by the transition to a contract manufacturer and the consolidation of the RO and CXR Larus facilities. This transition and consolidation is no longer negatively impacting RO in the second quarter of 2008.

We expect that sales of electronic devices during each of the remaining quarterly periods of 2008 will be higher than the level of sales we reported for second quarter of 2008.

Communications Equipment Segment

The increase in sales of our communications equipment in the second quarter of 2008 as compared to the second quarter of 2007 was primarily due to a favorable impact of approximately \$0.4 million as the result of the change in exchange rates between the U.S. dollar and the euro over the prior year period. Sales at our U.S. subsidiary were comparable to sales in the second quarter of 2008 while sales at our French subsidiary declined slightly in the second quarter of 2008 as compared to the second quarter of 2007 due to slower sales of test equipment and reduced service revenues.

We expect that sales of our communications equipment will improve during the second half of 2008 as contracts for our TiemPo product are satisfied and sales of our fiber optic modem products regain momentum. We expect sales at our French subsidiary will increase slightly as a result of higher international sales. We also expect our French subsidiary sales to increase as a result of an increase in orders at the end of the second quarter that we expect to ship in the second half of 2008.

Table of Contents**Gross Profit**

(in thousands)	Three Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Electronic devices	\$ 3,458	\$ 2,794	\$ 664	23.8%
as a % of net sales	33.9%	33.1%		
Communications equipment	1,531	1,282	249	19.4%
as a % of net sales	39.6%	35.3%		
Total gross profit	\$ 4,989	\$ 4,076	\$ 913	22.4%
Total gross margin	35.5%	33.8%		

Electronic Devices Segment

The increase in gross profit, as a percentage of net sales, of our electronic devices from 33.1% in the second quarter of 2007 to 33.9% in the second quarter of 2008 is primarily the result of increased shipments of higher margin digital switches at our U.S. Digitran division along with increased product pricing and improved production efficiency at our RO subsidiary, which increases contributed approximately \$0.8 million of gross profit. These increases were offset by a decrease of \$0.2 million in gross profit at our subsidiary in England due to increased shipments of lower margin IFE&C products, which is consistent with our strategy to penetrate the lower margin, high growth commercial In-flight Entertainment market in an effort to improve overall profitability.

We expect that during the second half of 2008, overall gross margins will be higher than the gross margins reported for the first half of 2008. However, during 2008 we may experience quarter to quarter variability due to product mix differences and resulting differentials associated with lower commercial versus higher military electronic devices gross margins and also due to changes in exchange rates between the euro, British pound sterling and U.S. dollar.

Communications Equipment Segment

The increase in gross margin of our communications equipment from 35.3% in the second quarter of 2007 to 39.6% in the second quarter of 2008 is primarily the result of increased sales of higher margin, TiemPo™ and fiber optic modem products, which increases totaled approximately \$0.1 million of gross profit. Gross profits at our French subsidiary remained relatively consistent with the prior year period. Gross margins were also favorably impacted by changes in foreign currency exchange rates between the U.S. dollar and the euro in the second quarter of 2008 compared to the second quarter of 2007.

We expect the trend of quarter over quarter improvement in gross profit (both in dollars and as a percentage of sales) for our communications equipment segment to continue throughout 2008, although as previously discussed, we do experience volatility quarter to quarter due to changes in product mix and timing of shipments and also due to changes in exchange rates between the euro, British pound sterling and U.S. dollar.

Table of Contents**Operating Expenses**

(in thousands)	Three Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Selling, general and administrative	\$ 4,006	\$ 3,849	\$ (157)	(4.1)%
<i>as % of net sales</i>	28.5%	31.9%		
Engineering and product development	782	665	(117)	(17.6)%
<i>as % of net sales</i>	5.6%	5.5%		
Total operating expenses	\$ 4,788	\$ 4,514	\$ (274)	(6.1)%

Selling, general and administrative expenses

The increase in selling, general and administrative expenses is primarily the result of an increase of approximately \$0.1 million in selling expenses at our French subsidiary related to attendance at trade shows that were absent in the second quarter of 2007 and the addition of headcount to support an increased international sales efforts.

During the remainder of the year, we will likely incur additional costs in connection with the remediation of certain internal control deficiencies and material weaknesses that were identified as a result of our 2007 management assessment pursuant to the Sarbanes-Oxley Act of 2002. We are currently in the process of developing specific action plans in that regard. We are uncertain at this time of the additional costs to remediate all of the control deficiencies and material weaknesses, however, we anticipate the cost to be in the range of \$0.2 million to \$0.4 million, most of which we expect to incur in 2008. We cannot guarantee that the actual costs to remediate these deficiencies will not exceed this amount. See Controls and Procedures.

Engineering and product development

The \$117,000 increase in engineering and product development costs is primarily due to the additional investment in the evolution of the TiemPo family of products, which we have scheduled for this year. We expect engineering and product development costs to be \$0.1 million to \$0.2 million higher in each of remaining quarters of 2008 as compared to the quarter ended June 2008 as we continue to invest in the TiemPo family of products and support other ongoing new product initiatives in each of our product lines.

Interest expense

Interest expense was \$0.6 million for the three months ended June 30, 2008 compared to \$0.2 million for the three months ended June 30, 2007 due to higher outstanding loan and line of credit balances and higher interest rates associated with our new credit facility entered into in November 2007. Included in interest expense in the second quarter of 2008 were \$0.2 million of unused line fees, non-cash amortization of deferred financing costs and related to non-cash amortization of debt discount. Approximately \$0.1 million of this amount was associated with

our \$10 million acquisition term loan, which was incurred without the benefit of an acquisition.

We expect quarterly interest expense for the remainder of 2008 to be consistent with that reported in the second quarter of 2008. However, if we are successful in closing our pending acquisition of Advanced Control Components, Inc. and, in connection with such closing, we are successful in borrowing up to an additional \$13 million from our current lender to fund the acquisition, our interest expense will increase. See Liquidity and Capital Resources.

Table of Contents**Other income (expense)**

We generated other income of \$0.1 million for the three months ended June 30, 2008 and 2007. Other income (expense) consisted primarily of short-term exchange rate gains, partially offset by losses, associated with the volatility of the U.S. dollar to the British pound sterling and euro on the current portion of certain assets and liabilities.

Income tax expense (benefit)

Income tax benefit amounted to \$4,000 for the three months ended June 30, 2008 compared to income tax expense of \$151,000 for the same period of 2007. Our income tax expense is primarily the result of foreign income tax on foreign earned profits. During the second quarter of 2008 we recorded an income tax benefit at two of our foreign operations related to the reclassification of deferred tax items to current as a result of changes in foreign tax rules, which resulted in a lower effective tax rate in the second quarter of 2008 compared to the same period of 2007.

Comparison of the Six Months Ended June 30, 2008 to the Six Months Ended June 30, 2007**Net Sales**

(in thousands)	Six Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Electronic devices	\$ 19,073	\$ 16,967	\$ 2,106	12.4%
as % of net sales	72.5%	70.7%		
Communications equipment	7,223	7,022	201	2.9%
as % of net sales	27.5%	29.3%		
Total net sales	\$ 26,296	\$ 23,989	\$ 2,307	9.6%

Electronic Devices Segment

The increase in sales of our electronic devices in the first half of 2008 as compared to the same period in 2007 was primarily the result of a \$1.2 million, or 17%, increase in sales at our Pascall subsidiary due primarily to shipments of our IFE&C products. Also contributing to the increase in sales was a \$0.9 million, or 18%, increase in sales at our U.S. subsidiaries as a result of higher levels of shipments of U.S. government orders for digital switches to satisfy our existing backlog for the DLA and the improved sales at our RO subsidiary. First and second quarter 2007 sales at RO were negatively impacted by the transition to a contract manufacturer and the consolidation of our RO and CXR Larus Corporation facilities. This transition and consolidation is no longer negatively impacting RO.

Communications Equipment Segment

The slight increase in sales of our communications equipment in the first half of 2008 as compared to the first half of 2007 is primarily due to the \$0.6 million impact of a favorable change in exchange rates between the U.S. dollar and the euro over the prior year period. This increase was offset by sales, in local currency, at our French subsidiary which declined \$0.2 million in the first half of 2008 compared to the first half of 2007 as a result of a decrease in sales of test equipment and a reduction in service revenues. Additionally, sales at our U.S. subsidiary decreased \$0.2 million as a result of a reduction in sales of our fiber optic modem products during the first quarter of 2008 and the required reengineering of the product due to obsolete components. This reengineering was completed in the first quarter of 2008 and we resumed shipment of the product during the second quarter of 2008.

Table of Contents**Gross Profit**

(in thousands)	Six Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Electronic devices	\$ 6,384	\$ 5,422	\$ 962	17.7%
as a % of net sales	33.5%	32.0%		
Communications equipment	3,014	2,502	512	20.5%
as a % of net sales	41.7%	35.6%		
Total gross profit	\$ 9,398	\$ 7,924	\$ 1,474	18.6%
Total gross margin	35.7%	33.0%		

Electronic Devices Segment

The increase in gross profit, as a percentage of net sales, for our electronic devices from 32.0% in the first half of 2007 to 33.5% in the first half of 2008 is primarily the result of increased shipments of higher margin digital switches at our U.S. Digitran division along with increased product pricing and improved production efficiency at our RO subsidiary.

Communications Equipment Segment

The increase in gross margin for our communications equipment from 35.6% in the first half of 2007 to 41.7% in the first half of 2008 is primarily the result of increased sales of higher margin, network access products at our French subsidiary and sales of our higher margin TiemPo™ and fiber optic modem products. Gross margins were also favorably impacted by changes in foreign currency exchange rates between the U.S. dollar and the euro in the first half of 2008 compared to the first half of 2007.

Operating Expenses

(in thousands)	Six Months Ended June 30,		Variance Favorable (Unfavorable)	
	2008	2007	Dollar	Percent
Selling, general and administrative	\$ 7,981	\$ 7,585	\$ (396)	(5.2)%
as % of net sales	30.4%	31.6%		
Engineering and product development	1,446	1,375	(71)	(5.2)%
as % of net sales	5.5%	5.7%		
Total operating expenses	\$ 9,427	\$ 8,960	\$ (467)	(5.2)%

Selling, general and administrative expenses

The increase in selling, general and administrative expenses is primarily the result of an increase of approximately \$0.2 million in selling expenses at our French subsidiary related to addition of staff and attendance at trade shows that were absent in the second quarter of 2007, \$0.1 million of one-time redundancy costs associated with the restructuring of personnel at two of our facilities and the addition of headcount to support an increased international sales efforts. Additionally, \$0.1 million of costs were incurred in connection with our 2007 Sarbanes-Oxley Act of 2002 management assessment, which was conducted during the first quarter of 2008. These costs were offset, in part, by temporary headcount reductions at RO and Pascall.

The \$71,000 increase in engineering and product development costs is primarily due to additional investment in the evolution of the TiemPo family of products.

Table of Contents

Interest expense

Interest expense was \$1.2 million for the six months ended June 30, 2008 compared to \$0.3 million for the six months ended June 30, 2007 due to higher outstanding loan and line of credit balances and higher interest rates associated with our new credit facility entered into in November 2007. Included in interest expense in the first half of 2008 were \$0.4 million of unused line fees, non-cash amortization of deferred financing costs and non-cash amortization of debt discount related to issuance costs for the credit facility. Approximately \$0.2 million of this amount was associated with our \$10 million acquisition term loan, which was incurred without the benefit of an acquisition.

Other income (expense)

We generated other income of \$0.1 million for the six months ended June 30, 2008 compared to \$0.2 million for the six months ended June 30, 2007. Other income (expense) consisted primarily of short-term exchange rate gains, partially offset by losses, associated with the volatility of the U.S. dollar to the British pound sterling and euro on the current portion of certain assets and liabilities.

Income tax expense (benefit)

Income tax expense amounted to \$0.1 million for the six months ended June 30, 2008 compared to \$0.3 million for the same period of 2007. Income tax expense is primarily the result of foreign income tax on foreign earned profits. During the second quarter of 2008 we recorded an income tax benefit at two of our foreign operations related to the reclassification of deferred tax items to current as a result of changes in foreign tax rules, which resulted in a decrease in the overall effective tax rate for the six months ended June 30, 2008 compared to the six months ended June 30, 2007.

Table of Contents

Liquidity and Capital Resources

In making an assessment of our liquidity, we believe that the items in our financial statements that are most relevant are our working capital, cash generated from our operating activities and cash available from our financing activities. During the first quarter of 2008, we funded our daily cash flow requirements through funds provided by operations and through borrowings from our credit facility with GVEC Resource IV Inc. (GVEC), an affiliate of Private Equity Management Group LLC (PEM Group). Working capital was \$13.6 million at June 30, 2008 as compared to \$16.1 million at December 31, 2007. The decrease in working capital is primarily the result of decreases in cash balances related to payments on long-term debt. At June 30, 2008 and December 31, 2007, we had accumulated deficits of \$21.8 million and \$20.7 million, respectively, and cash and cash equivalents of \$1.9 million and \$4.8 million, respectively.

Net cash used in operating activities during the six months ended June 30, 2008 totaled \$0.6 million as compared to net cash provided by operating activities of \$0.2 million in the six months ended June 30, 2007. In addition to the net loss of \$1.2 million, the primary significant use of cash from operations during the first half of 2008 was an increase in inventory of \$0.8 million and a \$0.4 million decrease in accounts payable and accrued liabilities as a result of timing of payments to our vendors. The primary source of cash associated with operating activities during the first half of 2008 was a decrease in accounts receivable balances of \$0.5 million due to collections on aged customer accounts.

During the first half of 2008 we paid approximately \$2.4 million of principal on debt, including net repayments on our revolving credit line of \$2.0 million and \$0.4 million in payments on other long-term debt.

As of June 30, 2008, we had outstanding borrowings of \$2.0 million under the GVEC credit facility, remaining actual availability under a formula-based calculation of \$4.0 million and contractual availability of \$5.0 million under the same facility. Actual remaining availability represents the additional amount we were eligible to borrow as of June 30, 2008, based on available eligible collateral and pre-determined advance rates on such collateral. Maximum contractual availability represents the maximum amount of availability provided under the credit facility as of that date.

In addition to the revolving line of credit, at June 30, 2008, we had long-term loans, shareholder note obligations and capitalized lease and equipment loan obligations totaling \$7.3 million, the current portion of which loans and obligations totaled \$0.7 million.

Our backlog increased to \$31.1 million as of June 30, 2008 compared to \$25.3 million as of December 31, 2007. The amount of backlog orders represents revenue that we anticipate recognizing in the future, as evidenced by purchase orders and other purchase commitments received from customers, but on which work has

Table of Contents

not yet been initiated or with respect to which work is currently in progress. Our backlog as of June 30, 2008 was approximately 96% related to our electronic devices business, which business tends to provide us with long lead-times for our manufacturing processes due to the custom nature of the products, and approximately 4% related to our communications equipment business, which business tends to deliver standard or modified standard products from stock as orders are received. We believe that the majority of our current backlog will be shipped within the next 12 months. However, there can be no assurance that we will be successful in fulfilling such orders and commitments in a timely manner or that we will ultimately recognize as revenue the amounts reflected as backlog.

Credit Facility

On November 30, 2007, EMRISE Corporation and its direct subsidiaries, EMRISE Electronics Corporation, CXR Larus Corporation and RO (collectively, the Borrowers) entered into a Credit Agreement with GVEC, providing for a three-year credit facility in the aggregate amount of \$23,000,000 and is secured by accounts receivable, other rights to payment and general intangibles, inventories and equipment.

The GVEC credit facility consists of (i) a one year revolving credit facility for up to \$7,000,000 that may be extended for up to three years (the Revolver), (ii) a three year term loan in an outstanding principal amount of \$6,000,000 which was fully funded on November 30, 2007, and (iii) a three year term loan in the amount of \$10,000,000 to be used solely for acquisitions made within 18 months of November 30, 2007.

The Revolver is formula-based and generally provides that the outstanding borrowings under the line of credit may not exceed an aggregate of 85% of eligible accounts receivable, plus 10% of the value of eligible raw materials not to exceed \$600,000, plus 50% of the value of eligible finished goods inventory not to exceed \$1,500,000, minus the aggregate amount of reserves that may be established by GVEC.

Interest on the Revolver is payable monthly. The interest rate is variable and is adjusted monthly based on prime rate as published in the Money Rates column of *The Wall Street Journal* (the Base Rate) plus 1.25%, subject to a minimum rate of 9.5%. The Revolver is subject to various financial covenants on a consolidated basis, including the following: EBITDA, measured on a fiscal quarter-end basis, must not be less than the scheduled amount for each specified period; the debt service coverage ratio, measured quarterly, must be greater than the lesser of the scheduled amount for each specific period or 1.10:1.00; the leverage ratio, measured quarterly, must not be greater than 1.25:1.00; and we must not incur capital expenditures in any fiscal year in excess of \$500,000. As of June 30, 2008, we were in default of our capital expenditure limitation described above, which default has been waived by our Lender.

The term loans bear interest at the Base Rate plus 4.25%, subject to a minimum rate of 12.5%, and require interest only payments in the first year, scheduled principal plus interest payments in years two and three, and a final balloon payment at the end of year three. Interest on the term loans is payable monthly. The Borrowers may make full or partial prepayment of the term loans provided that any such prepayment is accompanied by the applicable prepayment premium discussed below.

Upon the sale or disposition by Borrowers or any of their subsidiaries of property or assets, we may be obligated to prepay the Revolver and the term loans with the net cash proceeds received in connection with such sales or dispositions to the extent that the aggregate amount of net cash proceeds received and not paid to GVEC as a prepayment, for all such sales or dispositions exceed \$150,000 in any fiscal year.

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In the event of a default and continuation of a default, GVEC may accelerate the payment of the principal balance requiring us to pay the entire indebtedness outstanding on that date. Upon the occurrence and during the continuation of an event of default, GVEC may also elect to increase the interest rate applicable to the outstanding balance by four percentage points above the per annum interest rate that would otherwise be applicable.

To secure payment of the indebtedness of Borrowers under the GVEC credit facility, the Borrowers irrevocably pledged and assigned to, and granted to GVEC a continuing security interest in all the personal property of the Borrowers including the Borrowers' interest in any deposit accounts, the stock of each of the Borrowers' subsidiaries, the intellectual property owned by each of the Borrowers, and the proceeds of the

Table of Contents

intellectual property owned by each of the Borrowers. If an event of default, GVEC may, at its option, exercise any or all remedies available to it with respect to the collateral. In addition, certain of the Borrowers' foreign subsidiaries have agreed to guaranty the Borrowers' performance under the GVEC credit facility.

Overall, we believe that current and future capital resources, revenues generated from operations and other existing sources of liquidity, including our GVEC credit facility, will be adequate to meet our anticipated short term, working capital and capital expenditures needs for at least the next 12 months. However, if we experience significant loss of revenue or increase in costs, our cash flow could be negatively impacted resulting in a cash flow deficit which, in turn, may require us to obtain additional financing. In addition, in order to close on our pending acquisition of Advanced Control Components, Inc. we will need to borrow up to an additional \$13 million from GVEC. If we are able to borrow these funds and close on this acquisition, our interest expense will increase and because of the expected additional capital needs associated with this new business, we may require additional financing. These potential additional financing needs could be met in the form of a revised debt structure with our existing lender, new financing with another lender or lenders, the sale of additional equity to raise capital, or the sale of certain assets to generate cash. As part of our overall strategy, we may sell certain businesses and/or product lines that are not part of our core business. We believe that the sale of such businesses and/or product lines would streamline operations, would strengthen our focus on core growth and would help to reduce the debt and interest expense related to the possible acquisition of Advanced Control Components. By lowering interest expense, we believe we could reduce our financial risk, provide a stronger balance sheet and achieve improved liquidity. Our failure to raise capital, if needed, ability to sell assets when needed and/or ability to secure additional financing could restrict our growth, limit our development of new products or hinder our ability to compete.

Effects of Inflation

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of either our company or our operating subsidiaries.

Impacts of New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material effect on our financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This new statement provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy, with the highest priority being quoted prices in active markets. The required effective date of SFAS No. 157 is the first quarter of 2008. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material effect on our consolidated financial statements, but resulted in additional disclosures. In February 2008, the FASB issued Staff Position No. 157-2, which delayed by one year the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We are currently evaluating the impact the adoption of SFAS No. 157 for non-financial assets and liabilities will have on our

consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The new standard amends SFAS No. 133 and seeks to enhance disclosure about how and why a company uses derivative and hedging activities, how derivative instruments and related hedged items are

Table of Contents

accounted for under SFAS No. 133 (and the interpretations of that standard) and how derivatives and hedging activities affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are evaluating the effect this statement may have on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Vice President Finance and Administration, our principal accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Vice President Finance and Administration concluded as of June 30, 2008 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses discussed immediately below.

In light of the three material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure that our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls

Table of Contents

may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Material Weaknesses and Related Remediation Initiatives

Set forth below is a summary of the various significant deficiencies which caused management to conclude that we had three material weaknesses. Through the efforts of our Vice President Finance and Administration and our Audit Committee, we are currently in the process of developing specific action plans to remediate the material weaknesses discussed more fully below. We expect to complete these various action plans by September 30, 2008. If we are able to complete these action plans by that date, we anticipate that all control deficiencies and material weaknesses will be remediated by December 31, 2008.

(1) We did not effectively implement comprehensive entity-level internal controls, as evidenced by the following control deficiencies:

Entity Level Internal Control Evaluation. We did not formally consider entity-wide controls that are pervasive across our company when considering whether control activities are sufficient to address identified risks.

Fraud Considerations. We did not conduct regular formalized assessments to consider risk factors that influence the likelihood of someone committing a fraud and the impact of a fraud on our financial reporting.

Objective Evaluation of Internal Controls. We did not use an internal audit function or other objective party to provide an objective perspective on key elements of the internal control system.

External Communication. We lacked formal policies and procedures regarding how and when matters affecting the achievement of financial reporting objectives are communicated with outside parties.

Assessment of Information Technology. We did not formally evaluate the extent of the needed information technology controls in relation to our assessment of processes and systems supporting financial reporting.

Information Technology. We did not have sufficient information technology controls, where applicable, designed and implemented to support the achievement of financial reporting objectives.

(2) We did not maintain effective controls over changes to critical financial reporting applications and over access to these applications and related data, as evidenced by the fact that certain of our personnel had unrestricted access to various financial application programs and data beyond the requirements of their individual job responsibilities. This control deficiency could result in a material misstatement of significant accounts or disclosures, including those described above, that could result in a material misstatement of our interim or annual consolidated financial statements that would not be prevented or detected.

(3) We did not maintain a sufficient level of information technology personnel to execute general computing controls over our information technology structure, which include the implementation and assessment of information technology policies and procedures. This control deficiency did not result in an audit adjustment to our 2007 interim or annual consolidated financial statements, but could result in a material misstatement of significant accounts or disclosures, which would not have been prevented or detected.

Remediation of Internal Control Deficiencies and Expenditures

The above material weaknesses did not result in adjustments to our consolidated financial statements as of June 30, 2008, however, it is reasonably possible that, if not remediated, one or more of the material weaknesses described above could result in a material misstatement in our reported financial statements that might result in a material misstatement in a future annual or interim period.

Table of Contents

In addition to the developing specific action plans for each of the above material weaknesses, we are taking steps to unify the financial reporting of all of our divisions. Accordingly, we are in the initial planning phase of implementing a centralized consolidation software package which we believe will facilitate this process and will assist in the remediation of many of the above listed deficiencies.

In addition, our audit committee has authorized the hiring of additional temporary staff and/or the use of financial and information technology consultants, as necessary, to ensure that we have the depth and experience to remediate the above listed material weaknesses, including the implementation and monitoring of the appropriate level of control procedures related to all of our manufacturing locations and our corporate offices. The audit committee will also work directly with management and outside consultants, as necessary to ensure that board level deficiencies are addressed. We are uncertain at this time of the costs to remediate all of the above listed material weaknesses, however, we anticipate the cost to be in the range of \$200,000 to \$400,000 (including the cost of the consolidation software described above), most of which costs we expect to incur in 2008. We cannot guarantee that the actual costs to remediate these deficiencies will not exceed this amount.

Through these steps, we believe that we are addressing the deficiencies that affected our internal control over financial reporting as of June 30, 2008. Because the remedial actions require hiring of additional personnel, upgrading certain of our information technology systems, and relying extensively on manual review and approval, the successful operation of these controls for at least several quarters may be required before management may be able to conclude that the material weakness has been remediated. We intend to continue to evaluate and strengthen our internal control over financial reporting systems. These efforts require significant time and resources. If we are unable to establish adequate internal control over financial reporting systems, we may encounter difficulties in the audit or review of our financial statements by our independent registered public accounting firm, which in turn may have a material adverse effect on our ability to prepare financial statements in accordance with GAAP and to comply with our SEC reporting obligations.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Various legal actions and claims may arise against us in the ordinary course of business. In the opinion of management, the ultimate resolution of such possible legal actions and claims will not have a material adverse effect on our consolidated financial position or our results of operations.

ITEM 1A. RISK FACTORS.

Item 1A of Part I of our Form 10-K for the year ended December 31, 2007 summarizes various material risks that investors should carefully consider before deciding to buy or maintain an investment in our common stock. Any of those risks, if they actually occur, would likely harm our business, financial condition and results of operations and could cause the trading price of our common stock to decline. There are no material changes to the risk factors set forth in the above-referenced report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Unregistered Sales of Equity Securities

None.

Dividends

We have not declared or paid any cash dividends on our capital stock in the past, and we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. We will pay dividends on our common stock only if and when declared by our board of directors. Our board of directors' ability to declare a dividend is subject to restrictions imposed by Delaware law. In determining whether to declare dividends, the board of directors will consider these restrictions as well as our financial condition, results of operations, working capital requirements, future prospects and other factors it considers relevant.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None.

Table of Contents

ITEM 6. EXHIBITS.

Number	Description
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Vice President Finance and Administration Pursuant to 18 U.S.C. Section 350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMRISE CORPORATION

Dated: August 7, 2008

By: /S/ CARMINE T. OLIVA
Carmine T. Oliva,
Chief Executive Officer

Dated: August 7, 2008

By: /S/ D. JOHN DONOVAN
D. John Donovan, Vice President Finance and
Administration (principal financial and accounting
officer)

Table of Contents

INDEX TO EXHIBITS ATTACHED TO THIS REPORT

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32.1	Certification of Chief Executive Officer and Vice President Finance and Administration Pursuant to 18 U.S.C. Section 350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002