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Emrise CORP  
Form 8-K/A  
October 04, 2005

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO  
FORM 8-K

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

Date of Report (Date of earliest event reported) SEPTEMBER 2, 2005  
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EMRISE CORPORATION  
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(Exact name of registrant as specified in its charter)

DELAWARE

001-10346

77-0226211  
-----

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(IRS Employer  
Identification No.)

9485 HAVEN AVENUE, SUITE 100, RANCHO CUCAMONGA, CALIFORNIA 91730  
-----

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (909) 987-9220  
-----

NOT APPLICABLE  
-----

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to  
simultaneously satisfy the filing obligation of the registrant under any of the  
following provisions (SEE General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act  
(17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17  
CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the  
Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the  
Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On September 2, 2005, Emrise Electronics Corporation ("Emrise

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Electronics"), a wholly-owned subsidiary of Emrise Corporation ("Emrise"), entered into a stock purchase agreement dated effective as of August 31, 2005 to acquire RO Associates Incorporated, a California corporation ("RO"). Effective September 28, 2005, Emrise Electronics entered into an amendment to the stock purchase agreement. The disclosure regarding this acquisition contained in Item 2.01 of this Form 8-K is incorporated herein by reference.

### ITEM 2.01. COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

Pursuant to the terms of the stock purchase agreement, as amended, Emrise Electronics acquired all of the issued and outstanding shares of common stock of RO. Prior to the acquisition, all of the common stock of RO was owned by Robert H. Okada, as Trustee of the Robert H. Okada Trust Agreement dated February 11, 1992, and Sharon Vavro, an individual.

RO is based in Sunnyvale, California and designs and manufactures DC-DC converters and AC-DC PFC modules for telecom, industrial, commercial, and quasi-military applications. As a result of the acquisition, Emrise Electronics acquired all of the assets and liabilities of RO, including the intellectual property, cash, accounts receivable and inventories owned by RO. Emrise Electronics intends to use these acquired assets for the same purpose for which they were used by RO.

The purchase price consisted of \$2,400,000 in cash paid at closing and an additional \$600,000 in cash payable in two equal installments on October 6, 2005 and March 31, 2006. The acquisition purchase price was funded with cash on-hand. The purchase price is subject to adjustment based on the value of the shareholders' equity, accounts receivable, accounts payable, cash on hand and net inventory of RO, as determined by the consolidated, unaudited balance sheet as of August 31, 2005, prepared in accordance with accounting principles generally accepted in the United States of America. In addition, concurrently with the closing of the acquisition of RO, Emrise Electronics paid in full all then existing credit facilities of RO in the aggregate amount of \$1,602,060.

In determining the purchase price for RO, Emrise Electronics considered account the historical and expected earnings and cash flow of RO, as well as the value of companies of a size and in an industry similar to RO, comparable transactions and the market for such companies generally. The purchase price represented a premium of approximately \$1,845,000 over the \$1,155,000 recorded net worth of the assets of RO. In determining this premium, Emrise Electronics considered the synergistic and strategic advantages provided by having a U.S.-based power converter manufacturer and the value of the goodwill, customer relationships and technology of RO. Goodwill associated with the RO acquisition totaled approximately \$1,308,000. Emrise intends to commission a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. Emrise has estimated that RO's technology is valued at approximately \$484,000, its trademarks are valued at \$300,000 and its customer relationships are valued at \$200,000. The valuation of the identified intangible assets is expected to be completed in December 2005 and could result in changes to the value of these identified intangible assets and corresponding changes to the value of goodwill. However, Emrise does not believe these changes will be material to Emrise's consolidated financial position or results of operations.

In connection with the execution of the stock purchase agreement, Emrise Electronics executed a lease agreement with Caspian Associates for the lease of

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25,700 square feet of a 30,700 square feet building located at 246 Caspian Drive, Sunnyvale, California. The lease provides for a two-year term, commencing on September 1, 2005 and ending on August 31, 2007, at a base rent of \$9,210 per month. Additionally, the lease provides for an extension of the lease term for an additional three years, to August 31, 2010 if RO achieves net sales of at least \$14,500,000 and cumulative gross profit of at least \$3,987,500. If RO achieves the net sales and cumulative gross profit targets, the monthly base rent for the facility will be increased to the fair market value as of the first day of the next calendar month. The facility will continue to be used for the design, manufacture and sale of power conversion products.

In connection with the stock purchase agreement, Emrise Electronics also executed an employment agreement with Richard Okada, effective as of September 1, 2005, to serve as president of RO. Mr. Okada will receive an annual base salary of \$115,000 for the two-year term of the employment agreement. In addition, Mr. Okada is entitled to receive an incentive bonus based upon performance criteria to be determined in the future. In connection with Mr. Okada's employment agreement, Emrise granted Mr. Okada an incentive stock option under Emrise's 2000 Stock Option Plan to purchase up to 50,000 shares of Emrise's common stock at an exercise price of \$1.35 per share. This option vests 50% on September 1, 2006 and 50% on September 1, 2007. The option expires on August 31, 2015.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

The following financial statements of RO Associates are included in this report:

	Page
	----
Independent Auditors' Report.....	F-1
Balance Sheet for the Year Ended May 31, 2005.....	F-2
Statements of Income and Retained Earnings for the Year Ended May 31, 2005...	F-4
Statements of Cash Flows for the Year Ended May 31, 2005.....	F-5
Notes to Financial Statements.....	F-6

RO ASSOCIATES INCORPORATED  
INDEPENDENT AUDITORS' REPORT

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To the Board of Directors

RO ASSOCIATES INCORPORATED

We have audited the balance sheet of RO Associates Incorporated as of May 31, 2005 and the related statement of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of RO Associates Incorporated as of May 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/S/ Mayer Hoffman McCann P.C.

San Jose, California  
August 9, 2005  
(except for Note 12, as to  
which the date is August 26, 2005)

F-1

RO ASSOCIATES INCORPORATED

BALANCE SHEET

May 31, 2005

ASSETS

-----

CURRENT ASSETS

Cash	\$ 56,615
Accounts receivable, net	792,127
Inventories	3,107,451
Deferred income taxes	281,000
Prepaid expenses	17,113
	-----

TOTAL CURRENT ASSETS	4,254,306
	-----

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PROPERTY AND EQUIPMENT, net	395,091
	-----
OTHER ASSETS	
Deferred income taxes	55,000
Other assets	10,618
	-----
TOTAL OTHER ASSETS	65,618
	-----
TOTAL ASSETS	\$ 4,715,015
	=====

See Notes to Financial Statements

F-2

RO ASSOCIATES INCORPORATED

BALANCE SHEET

May 31, 2005

LIABILITIES

-----

CURRENT LIABILITIES	
Accounts payable	\$ 692,833
Accrued expenses	342,845
Current portion of long-term debt	482,298
Current portion of obligation under capital lease	12,567
	-----
TOTAL CURRENT LIABILITIES	1,530,543
	-----
LONG-TERM DEBT, less current portion above	1,018,000
	-----
OBLIGATION UNDER CAPITAL LEASE, less current portion above	50,010
	-----

STOCKHOLDERS' EQUITY

-----

CAPITAL CONTRIBUTED	
Common stock, no par value; 7,500 shares authorized; 1,210 shares issued and outstanding	12,500
	-----
RETAINED EARNINGS	2,103,962
	-----
TOTAL STOCKHOLDERS' EQUITY	2,116,462
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,715,015
	=====

See Notes to Financial Statements

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F-3

RO ASSOCIATES INCORPORATED  
STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended May 31, 2005

NET SALES	\$ 6,041,264
COST OF GOODS SOLD	3,750,254
	-----
GROSS PROFIT	2,291,010
OPERATING EXPENSES	1,699,501
	-----
OPERATING INCOME	591,509
	-----
OTHER INCOME (EXPENSE)	
Miscellaneous income	4,754
Interest expense	(129,487)
	-----
TOTAL OTHER INCOME (EXPENSE)	(124,733)
	-----
INCOME BEFORE INCOME TAXES	466,776
INCOME TAX EXPENSE	168,000
	-----
NET INCOME	298,776
RETAINED EARNINGS	
Balance, beginning of year	1,805,186
	-----
TOTAL RETAINED EARNINGS	\$ 2,103,962
	=====

See Notes to Financial Statements

F-4

RO ASSOCIATES INCORPORATED  
STATEMENT OF CASH FLOWS

Year Ended May 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 298,776
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation and amortization	318,341
(Gain) on disposal of assets	(4,246)

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Deferred income taxes	42,000
(Decrease) in allowance for doubtful accounts	(18,750)
Decrease (increase) in operating assets:	
Receivables	72,258
Inventories	186,326
Prepaid expenses	(4,707)
Increase (decrease) in operating liabilities:	
Accounts payable	210,344
Accrued expenses	201,828
	-----
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,302,170
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of equipment	9,394
Investment in property and equipment	(28,539)
	-----
NET CASH FLOWS FROM INVESTING ACTIVITIES	(19,145)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Bank overdraft (repayment)	(35,227)
Net (repayment) on line-of-credit	(2,138,655)
Proceeds from long-term debt	1,500,000
Repayment of long-term debt	(543,787)
Repayment of capital lease obligation	(8,741)
	-----
NET CASH FLOWS FROM FINANCING ACTIVITIES	(1,226,410)
	-----
NET INCREASE (DECREASE) IN CASH	56,615
	-----
CASH, BEGINNING OF YEAR	-
	-----
CASH, END OF YEAR	\$ 56,615
	=====

See Notes to Financial Statements

F-5

RO ASSOCIATES INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

( 1 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - RO Associates Incorporated (the Company) is engaged principally in the development, manufacturing and marketing of electronic power conversion devices. The Company sells principally to original equipment manufacturers in North America. In addition, the Company has licensed the right to manufacture and sell its proprietary products to companies based in North America, Europe, Taiwan and Japan.

REVENUE RECOGNITION - The Company recognizes revenue as follows:

Product Sales - Revenue from product sales is recognized upon shipment.

Licenses - For those agreements that provide the licensees the right to

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manufacture and sell the Company's proprietary products, initial license fee revenue is recognized upon delivery of the product technology. Guaranteed minimum license royalties are recognized as revenue as they become due. Per unit royalties that exceed the guaranteed minimum are recognized as earned when reported.

USE OF ESTIMATES - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVENTORY VALUATION - Inventories are stated at the lower of cost or market. Cost has been determined on the first-in, first-out basis. Market is based upon realizable value less allowance for selling and distribution expenses and normal gross profit.

An inventory reserve is provided for obsolete and slow moving inventory to write it down to net realizable value (market), if necessary. The reserve is calculated as a percentage of the cost of inventory identified as slow moving. The carrying amount for inventory has been reduced by \$156,000 at May 31, 2005.

DEPRECIATION AND AMORTIZATION - Depreciation is computed on the straight-line method over the following estimated useful lives:

ASSETS -----	USEFUL LIVES -----
Machinery and equipment	3 - 7 years
Furniture and fixtures	5 - 10 years
Auto and trucks	5 - 10 years
Leasehold improvements	5 - 39 years

F-6

( 1 ) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
-----

CONCENTRATIONS OF CREDIT RISK - Financial instruments which potentially subject the Company to a concentration of credit risk include cash and trade receivables. At various times throughout the year, the Company maintained cash balances in excess of federally insured limits. All cash balances are held by credit worthy financial institutions.

Two customers accounted for approximately 26% of revenues for the year ended May 31, 2005. Neither customer had an accounts receivable balance as of May 31, 2005.

ACCOUNTS RECEIVABLE, NET - Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained for potential credit losses based upon an assessment of the expected collectibility of all accounts receivable. The allowance for doubtful accounts is reviewed periodically to assess the adequacy of the allowance. The allowance for doubtful accounts was approximately \$93,000 as of May 31, 2005.



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INCOME TAXES - The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent such deferred tax assets are not expected to be realized.

RESEARCH AND DEVELOPMENT EXPENSES - Research and development expenditures, which are expensed as incurred, totaled \$584,226 during the year ended May 31, 2005.

ADVERTISING COSTS - Advertising costs are charged to operations when incurred. Advertising expense was \$87,953 for the year ended May 31, 2005.

( 2 ) INVENTORIES

-----

	MAY 31, 2005
	-----
Raw materials	\$ 1,879,163
Work-in-process	572,970
Finished goods	655,318
	-----
Total inventories	\$ 3,107,451
	=====

F-7

( 3 ) PROPERTY AND EQUIPMENT

-----

	MAY 31, 2005
	-----
Cost of owned property and equipment:	
Machinery and equipment	\$ 2,985,066
Furniture and fixtures	126,236
Leasehold improvements	228,441
	-----
Total cost of owned property and equipment	3,339,743
Accumulated depreciation	3,004,673
	-----
Net owned property and equipment	335,070
	-----
Cost of property and equipment under capital lease:	
Machinery and equipment	71,317
Accumulated amortization	11,296

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Net leased property and equipment under capital lease	60,021
Total net property and equipment	\$ 395,091

The aggregate depreciation and amortization on the above property and equipment charged to operations was \$318,341 for the year ended May 31, 2005.

( 4 ) LINE OF CREDIT

On August 17, 2004, the Company converted its existing \$3,000,000 line of credit into a \$1,000,000 line of credit and a \$1,500,000 note payable.

The Company's line of credit bears interest at the bank's prime rate (6.0% at May 31, 2005) plus 0.25% and expires on December 15, 2005. The line is guaranteed by a partnership (the Partnership) whose partners include the majority shareholder of the Company. As of May 31, 2005, no amounts were outstanding against the line of credit.

F-8

( 5 ) LONG-TERM DEBT

	MAY 31, 2005
Former line of credit converted into note payable to bank, guaranteed by the Partnership and secured by all fixtures in the building owned by the Partnership, payable in monthly principal installments of \$27,000, plus interest at the bank's prime rate (6.0% as of May 31, 2005) plus 1.25% through July 15, 2009.	\$ 1,342,000
Non-revolving equipment acquisition line of credit, collateralized by substantially all the Company's assets, payable in monthly principal and interest installments of \$27,578; interest accrues at the bank's prime rate (6.0% as of May 31, 2005) plus 0.5% through October 15, 2005.	135,634
Equipment note payable, collateralized by substantially all the Company's assets, payable in monthly principal and interest installments of \$4,663; interest is at the bank's prime rate (6.0% as of May 31, 2005) plus 0.5% through October 15, 2005.	22,664
Equipment note payable, collateralized by substantially all the Company's assets, paid in full in 2005.	-
Total long-term debt	1,500,298
Less current portion	482,298

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Noncurrent portion \$ 1,018,000  
=====

F-9

( 5 ) LONG-TERM DEBT (CONTINUED)  
-----

The line of credit, non-revolving equipment acquisition line of credit and notes payable require the Company to meet certain financial covenants. As of May 31, 2005, the Company was in compliance with all of its covenants.

Estimated maturities of long-term debt are as follows:

YEARS ENDING MAY 31,  
-----

2006		\$	482,298
2007			324,000
2008			324,000
2009			324,000
2010			46,000
			-----
		\$	1,500,298
			=====

( 6 ) OBLIGATION UNDER CAPITAL LEASE  
-----

The Company entered into a capital equipment lease on July 14, 2004. The lease is payable in monthly principal and interest installments of approximately \$1,500 through August 8, 2009 and bears interest at 8.5%.

Future minimum lease payments under the capital lease together with the present value of the net minimum lease payments are as follows:

YEARS ENDING MAY 31,  
-----

2006		\$	18,177
2007			18,177
2008			18,177
2009			18,177
2010			3,030
			-----
Total minimum lease payments			75,738
Less amount representing interest			13,162
			-----
Present value of net minimum lease payments			62,576
Less current portion			12,567
			-----
Noncurrent portion		\$	50,010
			=====

( 7 ) OPERATING LEASES AND RELATED PARTIES TRANSACTION  
-----

The Company leases office equipment under an operating lease.

The future minimum rental payments required under the operating lease that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

YEARS ENDING MAY 31,  
-----

2006	\$	7,779
2007		7,779
2008		7,779
2009.		1,945
		-----
Totals	\$	25,282
		=====

The Company leases its manufacturing facilities under a month-to-month lease from the Partnership. Rent expense was approximately \$110,000 for the year ended May 31, 2005.

( 8 ) INCOME TAXES  
-----

Temporary differences principally arise from differences in depreciation, allowance for doubtful accounts, reserves and liabilities, and inventory valuation. The deferred tax asset totaled \$336,000 at May 31, 2005.

The provision for income taxes consists of the following:

	YEAR ENDED MAY 31, 2005
	-----
Current income taxes	\$ 125,000
Federal income taxes	
State and local income taxes	1,000
	-----
Total current income tax expense	126,000
	-----
Deferred income tax expense	6,000
Federal income taxes	
State and local income taxes	36,000
	-----
Total deferred income tax expense	42,000
	-----
Total income tax expense	\$ 168,000
	=====

The effective tax rate differs from the combined federal and state statutory tax rates of approximately 40% principally due to the utilization of certain federal and state research and development

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credits.

As of May 31, 2005, the Company had state research and development credit carryforwards of \$41,506.

F-11

( 9 ) PROFIT SHARING PLAN  
-----

The Company has a profit sharing plan covering substantially all of its employees. Contributions are made at the discretion of the Company's board of directors. During the year ended May 31, 2005, the Company made a contribution to the plan of \$50,000. As of May 31, 2005, plan assets totaled \$2,622,887.

( 10 ) PRODUCT WARRANTY  
-----

The Company accrues an estimate of its exposure to warranty claims based on warranty costs incurred. The Company provides a 24-month warranty on its products. The Company assesses the adequacy of its recorded warranty liability annually and adjusts the amount as necessary. The warranty liability is included in accrued liabilities in the accompanying balance sheet. Changes to the Company's warranty liability were as follows:

	YEAR ENDED MAY 31, ----- 2005 -----
Warranty accrual, beginning of year	\$ 49,572
Charges to costs and expenses	34,288
Actual warranty expenditures	(34,288)
	-----
Warranty accrual, end of year	\$ 49,572 =====

( 11 ) CASH FLOW DISCLOSURES  
-----

The following is a summary of supplemental cash flow information:

	YEAR ENDED MAY 31, ----- 2005 -----
Cash paid:	
Interest	\$ 129,487 =====
Income taxes	\$ 800 =====
Noncash investing & financing activities:	

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Equipment acquisitions through capital lease	\$ 71,317
	=====

F-12

( 12 ) SUBSEQUENT EVENTS

-----

Subsequent to May 31, 2005, the Company entered into a letter of intent to sell all of its outstanding capital stock to an acquiring company. The closing date is expected to be approximately August 31, 2005.

F-13

(b) Pro Forma Financial Information.

-----

As described in Item 2.01 of this report, effective as of August 31, 2005, Emrise Electronics acquired all of the issued and outstanding capital stock of RO. The accompanying unaudited pro forma condensed consolidated balance sheet and unaudited pro forma condensed consolidated statements of operations as of and for the periods ended June 30, 2005 and December 31, 2004 are set forth herein to give effect to the acquisition of RO as if the acquisition had been consummated at the beginning of the earliest period presented (January 1, 2004).

Emrise previously acquired, effective as of March 18, 2005, all of the issued and outstanding common stock of Pascall Electronic (Holdings) Limited ("PEHL"). The accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004 also give effect to the acquisition of PEHL and PEHL's subsidiary as if that acquisition had been consummated at January 1, 2004. The balance sheets of PEHL and PEHL's subsidiary were included in Emrise's quarterly report on Form 10-Q for the six months ended June 30, 2005.

Emrise previously acquired, effective as of July 13, 2004, all of the issued and outstanding common stock of Larus Corporation. The accompanying unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2004 also give effect to the acquisition of Larus Corporation and Larus Corporation's subsidiary as if that acquisition had been consummated at January 1, 2004. The balance sheets of Larus Corporation and Larus Corporation's subsidiary were included in Emrise's quarterly report on Form 10-Q for the six months ended June 30, 2005.

The acquisitions were accounted for under the purchase method of accounting in accordance with accounting principles generally accepted in the United States. Under this method, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their estimated fair values. The excess of the purchase price, plus estimated fees and expenses related to the acquisitions, over the fair value of net assets acquired are recorded as goodwill.

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The unaudited pro forma condensed consolidated balance sheet and statements of operations do not reflect any potential cost savings that were or may be realized following the acquisitions. The pro forma adjustments and assumptions are based on estimates, evaluations and other data currently available and, in Emrise's opinion, provide a reasonable basis for the fair presentation of the estimated effects directly attributable to the acquisition and related transactions. The unaudited pro forma condensed consolidated balance sheet and statements of operations are provided for illustrative purposes only and are not necessarily indicative of what the consolidated results of operations or financial position would actually have been had the acquisitions occurred on January 1, 2004, nor do they represent a forecast of the consolidated results of operations or financial position for any future period or date.

All information contained herein should be read in conjunction with Emrise's annual report on Form 10-K for the year ended December 31, 2004, its quarterly report on Form 10-Q for the six months ended June 30, 2005, the consolidated financial statements and notes thereto of RO included in Item 9.01(a) of this Form 8-K and the notes to unaudited pro forma financial information included herein. The following pro forma financial information is included in this report:

5

	Page ----
Pro Forma Condensed Consolidated Balance Sheet as of June 30, 2005.....	F-14
Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 2004.....	F-16
Pro Forma Condensed Consolidated Statement of Operations for the Six Months Ended June 30, 2005.....	F-17

6

### EMRISE CORPORATION

#### PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2005 (IN THOUSANDS)

ASSETS	EMRISE -----	RO -----	PRO FORMA ADJUSTMENTS -----	T -----
Cash	\$ 6,435	\$ 57	\$ (4,000) (a)	\$
Accounts receivable	7,635	792	-	
Inventories	8,596	3,107	(856) (b)	

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Deferred tax assets	345	281	-	
Prepays and other current	573	17	-	
	-----	-----	-----	-----
Total current assets	23,584	4,254	(4,856)	
Net fixed assets	2,079	395	-	
Goodwill	12,368	-	1,250	(c)
Intangibles	2,062	-	984	(b)
Other assets	573	66	-	
Investments	-	-	-	
	-----	-----	-----	-----
Total other assets	15,003	66	2,234	
	-----	-----	-----	-----
Total assets	\$ 40,666	\$ 4,715	\$ (2,622)	\$
	=====	=====	=====	=====

- (a) Cash for \$2,400 purchase price, \$1,500 to pay off RO bank debt, estimated transaction fees of \$100. At the time of the acquisition, the RO bank debt had grown to \$1,602
- (b) Recalculation of inventory reserve for excess and obsolete parts
- (c) Goodwill
- (d) Estimated fair value of \$484 for RO's technology, \$300 for RO's trademarks and \$200 for RO's relationships

F-14

EMRISE CORPORATION

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET AS OF  
JUNE 30, 2005 (CONTINUED)  
(IN THOUSANDS)

LIABILITIES AND STOCKHOLDERS' EQUITY	EMRISE	RO	PRO FORMA ADJUSTMENTS	
	-----	-----	-----	-----
Borrowings under credit lines	\$ 811	\$ -	\$ -	\$
Current portion of long-term debt	892	482	(482)	(e)
Notes payable to stockholders, current portion	500	-	-	
Accounts payable	3,171	693	-	
Income taxes payable	594	-	-	
Accrued expenses	3,707	356	-	
	-----	-----	-----	-----
Total current liabilities	9,675	1,531	(482)	
Long-term debt, less current portion	322	1,018	(1,018)	(f)
Notes payable to stockholders, less current portion	2,000	-	-	
Deferred income taxes	1,420	-	394	(g)
Other liabilities	887	50	600	(h)
	-----	-----	-----	-----
Total non current liabilities	4,629	1,068	(24)	
	-----	-----	-----	-----
Total liabilities	14,304	2,599	(506)	



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Stockholders' Equity

Common stock	123	12	(12)	(i)
Additional paid in capital	43,243	-	-	
Retained earnings (accumulated deficit)	(16,735)	2,104	(2,104)	(j)
Accumulated comprehensive income	(269)	-	-	
	-----	-----	-----	
Total stockholders' equity	26,362	2,116	(2,116)	
Total liabilities and stockholders' equity	\$ 40,666	\$ 4,715	\$ (2,622)	\$
	=====	=====	=====	=====

- 
- (e) Payoff of RO's bank debt
  - (f) Payoff of RO's bank debt
  - (g) Deferred income taxes provided on intangibles at a composite federal and state rate of 40%
  - (h) Deferred portion of purchase price is \$600
  - (i) To eliminate RO's stock in consolidation
  - (j) To reduce RO's retained earnings to zero

F-15

EMRISE CORPORATION

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	EMRISE	RO JAN. 1 TO DEC. 31	LARUS JAN. 1 TO JULY 12	PEHL JAN. 1 TO DEC. 31	PRO FORMA ADJUSTME
	-----	-----	-----	-----	-----
Sales	\$ 29,861	\$ 6,597	\$ 2,625	\$ 13,912	\$
Cost of sales	16,146	4,000	1,260	10,782	(
	-----	-----	-----	-----	-----
Gross profit	13,715	2,597	1,365	3,130	
Selling, general and administrative	10,226	1,034	682	2,822	(
Engineering and product development	1,521	635	220	359	1
	-----	-----	-----	-----	-----
Total	11,747	1,669	902	3,181	1
Operating profit	1,968	928	463	(51)	(
Interest expense	(433)	(132)	-	(110)	1
					(

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Other, net	(6)	-	2	-	
Income (loss) before income taxes	1,529	796	465	(161)	
Income taxes	49	287	181	(151)	(1)
Net income (loss)	\$ 1,480	\$ 509	\$ 284	(\$ 10)	\$ 1
Earnings Per Share - Basic	\$0.06				
Earnings Per Share - Diluted	\$0.06				
Shares Outstanding - Basic	24,063				
Shares Outstanding - Diluted	24,839				

- 
- (a) Reduction of \$60 Larus rent allocated to cost of sales due to new lease at Larus
  - (b) Reduction of \$15 Larus rent allocated to selling and administration due to new lease at Larus
  - (c) Amortization for Larus Corporation for technology and customer relationships of \$135
  - (d) Elimination of interest expense due to payoff of RO's bank debt of \$132
  - (e) Increase in interest cost of \$76 for long-term note issued for the Larus acquisition. The note is \$3,000 and carry an interest rate of 30-day LIBOR plus 1%
  - (f) Utilization of Emrise net operating loss tax carryovers offsetting Larus and RO tax provisions

F-16

EMRISE CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2005  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	EMRISE	RO JAN. 1 TO JUNE 30	PEHL JAN. 1 TO MAR. 17	PRO FORMA ADJUSTMENTS
	-----	-----	-----	-----
Sales	\$ 17,261	\$ 2,714	\$ 3,241	\$ -
Cost of sales	10,186	1,849	1,648	-
Gross profit	7,075	865	1,593	0
Selling, general and administrative	6,278	667	1,070	-
Engineering and product development	1,136	254	359	-
Total	7,414	921	1,429	0
Operating profit	(339)	(56)	164	0

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Interest income	109	-	-	(46) (a)
Interest expense	(196)	(56)	-	56 (b)
Other, net	112	-	-	-
	-----	-----	-----	-----
Income (loss) before income taxes	(314)	(112)	164	10
Income taxes	15	(39)	-	39 (c)
	-----	-----	-----	-----
Net (loss) income	\$ (329)	\$ (73)	\$ 164	\$ (29)
	=====	=====	=====	=====
Loss Per Share - Basic	(\$0.01)			
Loss Per Share - Diluted	(\$0.01)			
Shares Outstanding - Basic	37,017			
Shares Outstanding - Diluted	37,017			

- (a) Reduction of interest income due to \$4,600 paid for RO and payoff of its debt  
(b) Elimination of interest expense due to pay off of RO's bank debt  
(c) Elimination of RO's tax benefit due to Emrise's net operating tax losses

F-17

(c) Exhibits.

Number	Description
-----	-----
2.1	Stock Purchase Agreement dated September 2, 2005 between Emrise Electronics Corporation, a New Jersey corporation, Robert H. Okada, as Trustee of the Robert H. Okada Trust Agreement dated February 11, 1992, and Sharon Vavro, an individual (1)
2.2	Amendment No. 1 dated effective as of September 28, 2005 to Stock Purchase Agreement dated September 2, 2005 between Emrise Electronics Corporation, a New Jersey corporation, Robert H. Okada, as Trustee of the Robert H. Okada Trust Agreement dated February 11, 1992, and Sharon Vavro, an individual

- (1) Filed as an exhibit to the initial filing of this Form 8-K and incorporated herein by reference.

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## SIGNATURE

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 hereunto duly authorized.

Date: October 4, 2005

EMRISE CORPORATION

By: /S/ RANDOLPH D. FOOTE

-----  
Randolph D. Foote, Chief Financial Officer

8

## EXHIBITS FILED WITH THIS AMENDMENT NO. 1 TO FORM 8-K

Number -----	Description -----
2.2	Amendment No. 1 dated effective September 28, 2005 to Stock Purchase Agreement dated September 2, 2005 between Emrise Electronics Corporation, a New Jersey corporation, Robert H. Okada, as Trustee of the Robert H. Okada Trust Agreement dated February 11, 1992, and Sharon Vavro, an individual