



TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

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Research Note

Investors should consider this report as only a single factor in making their investment decision.

DRI Corporation

Rating: Speculative Buy

Luis Martins

January 14, 2009

TBUS \$1.04 — (TBUS: NASDAQ)

	2006A	2007A	2008E	2009E
Total revenues (in millions)	\$49.2	\$57.9	\$70.1	\$82.0
Earnings (loss) per share	(\$0.43)	\$0.03	\$0.09	\$0.22

52 - Week range	\$3.20 - \$0.64	Fiscal year ends:	December
Shares outstanding as of November 10, 2008	11.5 million	Revenue/shares (ttm)	\$6.32
Approximate float	10.3 million	Price/Sales (ttm)	0.2X
Market Capitalization	\$12 million	Price/Sales (2009)E	0.2X
Tangible Book value as of September 30, 2008	\$0.83	Price/Earnings (ttm)	5.0X
Price/Book	1.3X	Price/Earnings (2009)E	4.7X

DRI Corporation (TBUS), headquartered in Dallas, TX, develops and markets technology for the worldwide surface mass transit industry. The company manufactures information display (both on- and off-vehicle) systems, and monitoring, video security, and GPS-based location and tracking systems. The technology is used by around 500 customers, principally on buses, of which many operate in developing countries. 60% of sales are to overseas customers.

Key Investment Considerations:

We are maintaining coverage of DRI Corporation (TBUS: NASDAQ) with an investment rating of Speculative Buy and a 12-month price target of \$2.25.

On December 23, 2008, DRI announced that due to some delayed deliveries to customers and higher expenses primarily associated with litigation settlement it was updating guidance for fiscal 2008. TBUS expects to report \$70 million in revenues and EPS of \$0.09 per share. For fiscal 2009, TBUS expects over \$90 million in revenues and EPS of over \$0.22 per share.

Also, on December 23, 2008, Management announced what it believes is a major order for Mobitec electronic information display systems from Dubai, United Arab Emirates. The order, potentially exceeding \$8 million, is expected to span 2009 and 2010.

Our revised 2008 forecast calls for revenues of \$70.1 million and net income (to common shareholders) of \$1.2 million or \$0.09 per share. We had previously projected net income (to common shareholders) of \$1.9 million, or \$0.14 per share, on revenue of \$71.6 million.

Our 2009 estimates (calling for net income to common shareholders of \$3 million, or \$0.22 per share, on revenue of \$82 million) remain unchanged pending the release of the Company's 2008 results and an analysis of the important business and financial trends.

** Please view our disclaimer located on page 7.*

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Overview

DRI Corporation (TBUS: NASDAQ), headquartered in Dallas, TX, was founded in 1983 as Digital Recorders, Inc. and became a public company through an initial public offering in 1994. The company changed its name to DRI from Digital Recorders, Inc. in June, 2007

DRI markets passenger information communication vehicle location, monitoring and security products to passenger bus and railway car manufacturers, and transport system operators. Roughly 70% to 75% of current sales consist of on-board programmable electronic vehicle information sign systems. The remainder consists of Intelligent Transportation Systems (ITS), mainly global positioning system (GPS)-based location, monitoring and video security monitoring systems that provide central monitoring facilities with real-time information that assists users and operators of transit bus and rail vehicles in locating, identifying, tracking, scheduling, and surveiling vehicles. ITS systems support transit system operators' efforts to increase passenger throughput and loads, reduce fuel consumption, and identify and mitigate security risks on their vehicles.

Recent Developments - Guidance

On December 23, 2008, DRI announced that due to some delayed deliveries to customers and higher expenses primarily associated with a litigation settlement it was updating guidance for fiscal 2008. TBUS expects to report \$70 million in revenues and EPS of \$0.09 per share. Taglich Brothers' estimates call for revenues of \$71.6 million and EPS of \$0.14 per share.

Management also commented that the Company's revenue stream normally has a significant level of larger contract content – the timing of delivery of which can be difficult to predict with precision – and business will always have a degree of quarterly variability. This pattern has been noted in several of the previous communications, and is again manifesting in the fourth quarter 2008 and first quarter 2009 expected results.

For fiscal 2009, TBUS expects over \$90 million in revenues and EPS of over \$0.22 per share. Taglich Brothers' estimates call for revenues \$82.0 million and EPS of \$0.22 per share.

Recent Developments

In December 2008 and January 2009, Management announced:

- A major order for Mobitec electronic information display systems from Dubai, United Arab Emirates. The order, potentially exceeding \$8 million, is expected to span 2009 and 2010;
- First-time orders for Mobitec electronic information display systems from JCBL, a bus manufacturer in India. Deliveries were underway in December and should conclude in first quarter of 2009; and
- Multiple orders totaling more than \$0.730 million to retrofit and/or upgrade Digital Recorders products in the existing bus fleets of transit agencies in three states (North Carolina, Virginia, and Florida). Deliveries are expected to be completed in the first quarter of 2009.
- Multiple orders of over \$0.8 million for Mobitec® electronic destination sign systems and other equipment from DeLijn, a transit operator in Belgium. Deliveries are expected to begin in first quarter and conclude in third quarter 2009.

Projections

Due to recent public guidance, we are adjusting our estimates for fiscal 2008.

Our revised forecast calls for revenues of \$70.1 million and net income (to common shareholders) of \$1.2 million or \$0.09 per share. We had previously projected net income (to common shareholders) of \$1.9 million, or \$0.14 per share, on revenue of \$71.6 million. Of note, our revised forecast would mean that a net loss to common shareholders of \$0.7 million or \$(0.05) per share is expected for the fourth quarter of 2008. This would be the first quarterly since early 2007.

In 2007, the Company reported a profit (to common shareholders) of \$0.03 per share, on revenue of \$57.9 million.

Our 2009 estimates (calling for net income to common shareholders of \$3 million, or \$0.22 per share, on revenue of \$82 million) remain unchanged pending the release of the Company's 2008 results and an analysis of the important business and financial trends. **However, investors are cautioned that given recent Management guidance there is a strong likelihood that adjustments will need to be made to our model.**

Risks

Ability to Sustain Profits While we project improving full-year profitability for 2008 and 2009, it should be noted that DRI has been profitable for less than a year. The company will, in light of flat gross margins that suggest limited pricing flexibility, have to increase sales of higher-margin ITS products, improve operating expense leverage and maintain sales growth momentum in order to achieve sustainable profit gains. DRI will, over the longer term, also have to reduce its dependence on borrowings, potentially by reducing its debt with the use of proceeds from stronger cash throw off.

Market Acceptance of ITS Sales and profitability gains could hinge to a significant extent on ITS penetration of overseas markets where none have been sold by the company yet. Heightened security concerns stemming from terrorist threats during the past seven years should increase the demand for ITS products. Our customer surveys reveal that in customers' perception, DRI shows significant competitive advantages with respect to technology, product quality, customer service and the ability to satisfactorily fulfill sizable orders. But the European market might be dominated by Continental AG, which is larger and is long entrenched in that market.

Dilution As of September 30, 2008, potentially dilutive shares stemming from options, warrants, convertible debt and convertible preferred stock totaled 1.6 million.

Economic Risk The Company's financial results depend largely on customer buying cycles, capital spending trends, and the general business outlook of existing and new customers. Recently, there have been numerous indications of poor macro economic performance. An adverse indication on these and other key metrics may negatively impact the Company's financial results and equity values.

Quarterly Fluctuations/Seasonality Investors should note that the Company's revenues and operating results for any particular quarter may not be indicative of its performance in future quarters, and may be subject to periodic variations and seasonality. A single order from one customer may represent a substantial portion of sales in any one period and significant orders by any customer during one period may not be followed by further orders in subsequent periods.

Growth Management As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted.

Microcap Concerns Shares of TBUS have risks common to the stocks of other microcap (which we define as market capitalizations of \$250 mil or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately 10.3 million shares in the float. On average, approximately 32,100 shares are traded daily.

Miscellaneous Risks The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Investment Recommendation

We are maintaining coverage of DRI Corporation (TBUS: NASDAQ) with an investment rating of Speculative Buy and a 12-month price target of \$2.25.

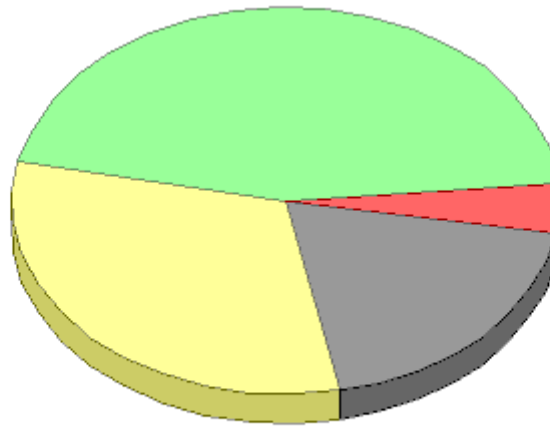
Capital IQ data stocks in the communications technology sector show an average price to (trailing) sales multiple of 0.5X, vs. DRI's 0.14X, a disparity that could suggest significant upside valuation potential.

We believe that as investors begin to discount 2009 results, they will accord the stock a valuation of \$3.00 per share, or roughly 0.5X estimated 2009 sales per share of \$6.07, subject to a 25% discount to reflect execution risk. Our target of \$2.25 implies that the stock price could more than double during the next 12 months. Our 2009 earnings projection of \$0.22 per share implies a forward P-E of 4.7X.

DRI Corporation



Taglich Brothers Current Ratings Distribution



■ 45.21 % Buy
 ■ 31.51 % Hold
 ■ 19.18 % Not Rated
 ■ 4.11 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	1	7.69%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public companies mentioned in this report

Affiliated Computer Systems (ACS: NYSE)	Orbital Sciences Corp. (NYSE: ORB)
Continental AG (CTTAY.PK)	Verint Systems Inc. (VRNT.PK)

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I, Luis Martins, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

DRI Corporation
Annual Income Statements
2005A – 2009E
(\$ Thousands)

	2005A	2006A	2007A	2008E	2009E
Sales	43,087	49,161	57,932	70,122	81,993
Cost of sales	28,572	35,287	39,311	46,021	53,105
Gross profit	14,515	13,874	18,621	24,101	28,888
Operating expenses					
SG&A	18,029	15,555	15,216	18,421	19,108
R&D	1,483	1,463	1,149	1,048	2,050
Total	19,512	17,018	16,365	19,469	21,158
Operating income (loss)	(4,997)	(3,144)	2,256	4,632	7,730
Other income (loss)	317	(55)	103	(304)	40
Foreign currency gain (loss)	(301)	152	210	289	160
Interest expense	(481)	(1,508)	(1,197)	(1,401)	(1,197)
Pre-tax income (loss)	(5,462)	(4,555)	1,372	3,216	6,733
Income taxes	(176)	(331)	(291)	(1,179)	(2,230)
Profit (loss) before minority interest	(5,638)	(4,886)	1,081	2,037	4,504
Minority interest	(451)	658	(188)	(541)	(1,200)
Net income (loss) - continuing operations	(6,089)	(4,228)	893	1,496	3,304
Net income (loss) - discontinued operations	165	334	(219)		
Preferred dividends	(203)	(298)	(294)	(302)	(304)
Amortization - discount on preferred stock	(323)	(49)			
Net profit (loss) - common shareholders	(6,450)	(4,241)	380	1,194	3,000
Avg. shares outstanding	9,676	9,788	11,146	13,045	13,500
Net income (loss) per share to common shareholders	(0.67)	(0.43)	0.03	0.09	0.22
Continuing operations	(0.68)	(0.47)	0.05		
Discontinued operations	0.02	0.03	(0.02)		
Margin analysis					
Gross margin	33.7%	28.2%	32.1%	34.4%	35.2%
SG&A	41.8%	31.6%	26.3%	26.3%	23.3%
R&D	3.4%	3.0%	2.0%	1.5%	2.5%
Operating margin	(11.6%)	(6.4%)	3.9%	6.6%	9.4%
Pre-tax margin	(12.7%)	(9.3%)	2.4%	4.6%	8.2%
Net margin	(14.1%)	(8.6%)	1.5%	2.1%	4.0%
Income tax rate	3.2%	7.3%	(21.2%)	(36.7%)	(33.1%)

DRI Corporation
Quarterly Income Statements
2008E – 2009E
(\$ Thousands)

	1Q08A	2Q08A	3Q08A	4Q08E	2008E	1Q09E	2Q09E	3Q09E	4Q09E	2009E
Sales	17,025	19,403	18,794	14,900	70,122	19,409	22,313	21,613	18,658	81,993
Cost of sales	10,993	12,651	12,294	10,083	46,021	12,593	14,450	13,994	12,067	53,105
Gross profit	6,032	6,752	6,500	4,817	24,101	6,815	7,863	7,619	6,591	28,888
Operating expenses										
SG&A	4,309	4,814	4,798	4,500	18,421	4,658	5,188	4,971	4,291	19,108
R&D	287	237	199	325	1,048	485	558	540	466	2,050
Total	4,596	5,051	4,997	4,825	19,469	5,143	5,746	5,511	4,758	21,158
Operating income (loss)	1,436	1,701	1,503	(8)	4,632	1,672	2,118	2,107	1,833	7,730
Other income (loss)	92	(114)	(32)	(250)	(304)	10	10	10	10	40
Foreign currency gain (loss)	163	1	125	0	289	40	40	40	40	160
Interest expense	(303)	(358)	(390)	(350)	(1,401)	(330)	(330)	(289)	(248)	(1,197)
Pre-tax loss	1,388	1,230	1,206	(608)	3,216	1,392	1,838	1,868	1,635	6,733
Income taxes	(370)	(518)	(291)	0	(1,179)	(93)	(735)	(747)	(654)	(2,230)
Profit (loss) before minority interest	1,018	712	915	(608)	2,037	1,299	1,103	1,121	981	4,504
Minority interest	(296)	(44)	(176)	(25)	(541)	(300)	(300)	(300)	(300)	(1,200)
Profit (loss) - continuing operations	722	668	739	(633)	1,496	999	803	821	681	3,304
Profit (loss) - discontinued operations										
Net profit (loss)	722	668	739	(633)	1,496	999	803	821	681	3,304
Preferred dividends	(74)	(75)	(77)	(76)	(302)	(76)	(76)	(76)	(76)	(304)
Amortization - preferred stock discount										
Net profit (loss) - common	648	593	662	(709)	1,194	923	727	745	605	3,000
Avg. shares outstanding	12,873	13,054	13,052	13,200	13,045	13,300	13,400	13,500	13,600	13,500
Net income (loss) per share	0.05	0.05	0.06	(0.05)	0.09	0.07	0.05	0.06	0.04	0.22
Margin analysis										
Gross margin	35.4%	34.8%	34.6%	32.3%	34.4%	35.1%	35.2%	35.3%	35.3%	35.2%
SG&A	25.3%	24.8%	25.5%	30.2%	26.3%	24.0%	23.3%	23.0%	23.0%	23.3%
R&D	1.7%	1.2%	1.1%	2.2%	1.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Operating margin	8.4%	8.8%	8.0%	(0.1%)	6.6%	8.6%	9.5%	9.8%	9.8%	9.4%
Pre-tax margin	8.2%	6.3%	6.4%	(4.1%)	4.6%	7.2%	8.2%	8.6%	8.8%	8.2%
Net margin	4.2%	3.4%	3.9%	(4.3%)	2.1%	5.1%	3.6%	3.8%	3.7%	4.0%
Income tax rate	(26.7%)	(42.1%)	(24.1%)	0.0%	(36.7%)	(6.7%)	(40.0%)	(40.0%)	(40.0%)	(33.1%)

Source: Company reports and Taglich Brothers estimates

DRI Corporation
Balance Sheets
(\$ Thousands)

	2005A	2006A	2007A	3Q08A
Current assets				
Cash + equivalents	807	611	729	1,937
Accts rec	8,425	10,368	11,919	14,160
Note rec - current			86	86
Other rec	211	147	465	563
Inventories	8,212	9,324	9,603	11,785
Prepayments & other	946	429	495	934
Total	18,601	20,879	23,297	29,465
Fixed assets				
Note rec - long-term portion			258	172
Goodwill	9,762	11,250	11,033	10,442
Intangibles	1,069	1,110	1,097	935
Deferred tax assets	231	191	56	52
Other assets	144	797	283	1,206
Total assets	33,548	37,358	38,914	45,807
Current liabilities				
Lines of credit	5,000	7,608	6,043	3,376
Notes pay		1,584	500	
Loan pay			391	695
Long-term debt (curr)	1,177	254	254	223
Foreign tax settlement (curr)		393	499	474
Accts pay	5,537	5,620	6,246	7,658
Accruals	2,854	2,935	3,681	5,197
Preferred dividends pay	72	23	18	16
Total	14,640	18,417	17,632	17,639
Long-term debt/cap leases	68	42	14	5,099
Foreign tax settlement		1,087	1,043	732
Deferred tax liabilities	382	383		
Liability for uncertain tax provisions			311	566
Minority interest in subsidiary	892	234	422	938
Shareholders' equity	17,566	17,195	19,492	20,833
Total liabilities & shareholders' equity	33,548	37,358	38,914	45,807

DRI Corporation
Cash Flow Statements
(\$ Thousands)

	2005A	2006A	2007A	3Q08A
Operating activities				quarter only
Net income (loss)	(5,924)	(3,894)	893	739
Deferred income taxes	(90)	57	(243)	
Liability for uncertain income tax			149	58
Depreciation/amort - fixed assets	1,290	1,333	1,070	245
Amortization:				
intangibles	110	111	138	39
deferred financing costs	122	271	279	104
beneficial conversion feature		212		0
fair value of warrants		278	245	28
Bad debt expense	265	240	26	43
Stock in lieu of cash compensation		63	76	23
Stock based compensation		50	41	65
Inventory obsolescence write down	1,410	122	141	77
Loss of sale of fixed assets	10	11	(3)	2
Other	220	(291)	(274)	(169)
Minority interest in subsidiary's income	451	(658)	188	176
Changes in working capital	2,309	(1,076)	(786)	(447)
Cash from operating activities - cont opns	173	(3,171)	1,940	983
Cash from operating activities - discount opns			(68)	
Investing activities				
Proceeds from sale of fixed assets	10	4	66	5
Capital expenditures	(674)	(261)	(296)	(156)
Investment - software development	(1,020)	(201)	(669)	(421)
Proceeds - sale of DAC			1,100	
Cash from investing activities	(1,684)	(458)	201	(572)
Financing activities				
Proceeds (payments) - borrowings	(385)	3,415	(2,494)	1,264
Proceeds - preferred stock	1,887	485	411	
Payments - new line of credit		(329)		
Payments - note pay		(81)		
Payments - debt issuance costs				(1,193)
Proceeds - common stock/options	149		189	
Preferred dividends	(147)	(128)	(118)	(28)
Cash from financing activities	1,504	3,362	(2,012)	43
Effect of exchange rate changes	(27)	71	57	(80)
Net change in cash	(34)	(196)	118	374
Cash - beginning	841	807	611	1,563
Cash - ending	807	611	729	1,937