



# TAGLICH BROTHERS

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## Research Report - Update

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

### DRI Corporation

Rating: Speculative Buy

Juan Noble

TBUS \$2.72 — (TBUS: NASDAQ)

June 4, 2008

	2006A	2007A	2008E	2009E
Total revenues (in millions)	\$49.2	\$57.9	\$70.6	\$80.8
Earnings (loss) per share	(\$0.43)	\$0.03	\$0.17	\$0.19*
52 - Week range	\$3.67 - \$1.65		Fiscal year ends:	December
Shares outstanding as of April 30, 2008	11.2 million		Revenue/shares (ttm)	\$5.38
Approximate float	11 million		Price/Sales (ttm)	0.51X
Market Capitalization	\$30.4 million		Price/Sales (2009)E	0.45X
Tangible Book value as of March 31, 2008	\$0.73		Price/Earnings (ttm)	17.9X
Price/Book	3.7X		Price/Earnings (2009)E	14.5X

\* fully taxed

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 an investment rating of Speculative Buy on DRI Corporation (TBUS: NASDAQ) and raising our 12-month price target to \$5.00 from \$2.75 per share based on an upward revision in our earnings estimates and expectations of an expansion in the stock's price to sales valuation. In light of risks relating to overseas growth plans aimed at sustaining profit gains, we view the stock as suitable mainly for risk-tolerant accounts.

1Q results were reported May 15, 2008. Revenue was up 42% (32% in constant currency). Manufacturing costs and operating expenses were well leveraged, resulting in a significant improvement in operating margins that raised earnings (to common shareholders) to \$0.06 per share from a loss (to common shareholders) of (\$0.08) per share in the year-earlier period.

Sales gain acceleration was sustained through 1Q08, reflecting US market expansion driven by increases in the number of buses in service, increased penetration of overseas markets and gross margin gains stemming mainly from an improved US sales mix and reduced material costs overseas.

By our estimates, revenue growth, gross margin gains stemming from increased sales of monitoring/tracking systems, and operating expense leverage will raise profits significantly during the next two years.

As larger profits increase cash throw-off, the company should be able to limit further utilization of its credit facilities and significantly widen its pre-tax profit margin in 2008 and 2009. A new lower-interest financing arrangement could improve pre-tax margins further.

\* Please view our disclaimer located on page 16.

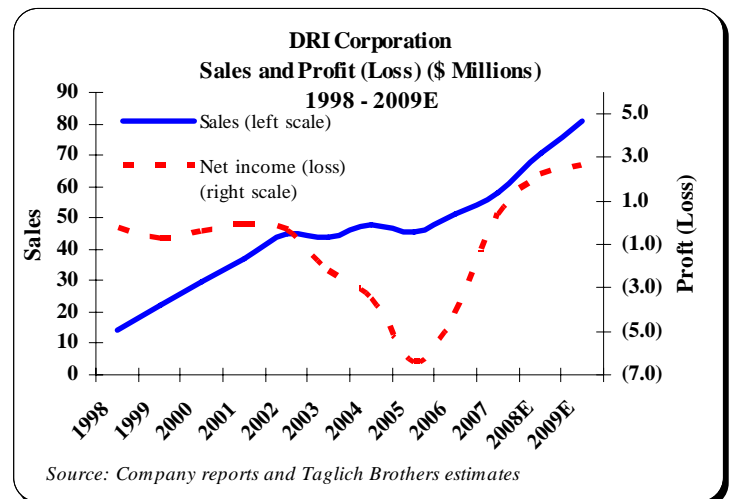
## Overview

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. According to the proxy statement filed April 29, 2008, 25% of the company's common shares, including beneficially held shares, and shares issuable on conversion of convertible securities or the exercise of options and warrant, are owned/controlled by three institutions – Riverview Group, LLC (9.9%), Dolphin Offshore Partners, L.P. (9.7%), and Barclay's Global Investors, N.A. (5.4%). Among the company's officers and directors, the largest shareholders are CEO David Turney (3.4%), VP and chief technology officer Lawrence Hagemann (1.4%), and director John Higgins (4.3%). Turney and Hagemann are long-term managers in DRI; the company's other key executives were appointed to their current positions in 2006 and 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 surveilling 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.

Overseas expansion, mainly through several 2001 acquisitions, significantly increased the scale of DRI's operations, giving the company, through its Mobitec subsidiaries, a direct presence in the Nordic countries, Germany, Australia and (South America) Brazil and the Middle East, from which sales are made to more than 500 overseas markets.

60% of sales are now generated overseas; half of those foreign sales come from Europe. As DRI has expanded, the company has also been realigned. Digital Audio Corporation, a subsidiary that sold roughly \$1.9 million of audio systems annually to the law enforcement and security services markets, was divested in April, 2007.



Revenue increased sharply through 2002, reflecting the acquisitions made in 2001. Between 2002 and 2006, however, US sales declined (and losses deepened) due mainly to the 3Q03 expiration of the US Transportation Equity Act, a law that funded US Federal Transit Administration grants of up to 80% of certain equipment purchases. Despite stop-gap legislative resolutions that bridged the gap between the expiration of US Transportation Equity Act and enactment of the new legislation in August, 2005, market uncertainty hampered US sales gains. Expansion overseas, however, enabled the DRI to maintain revenue at roughly 2002 levels. With the 2005 passage of the SAFETEA-LU Act, the company's sales began to regain growth momentum.

Despite robust long-term revenue growth (17% CAGR from 1998 to 2007), profits were elusive until 2Q07. Gross margins for 2005-07 were lower than they were in the preceding seven years and SG&A margins increased sharply through 2005 before moderating in 2006. Historical SG&A margins suggest a large cost structure, which is attributed to the geographical dispersion of the business. Widespread international markets require several manufacturing and administrative centers, facilitating product shipments and local sourcing of materials and labor. DRI rationalized its structure in 2006, reduced its annual costs by \$1.4 million.

2007 was a turnaround year. Revenue was up 18%. The gross margin for the year was largely in line with historical experience but SG&A expenses shrank dramatically in both dollar and margin terms, enabling the company to show an operating profit for the first time since 2002. That operating profit was large enough to offset heavy interest expenses and preferred dividends, yielding the first annual net profit (to common shareholders) for the first time during the 1998-2007 period.

Management guidance places 2008 revenue at up to \$70 million, on which DRI aims to earn \$0.14 to \$0.17 per share, and 2010's year-end run rate at \$100 million. On June 4, 2008, management reiterated its guidance, signalling comfort with with projections close to or at the upper end of its earnings per share guidance. These objectives appear, in our view, well within reason. If revenue and margin gains are sustained, cash throw off should increase to a point where DRI can limit further use of borrowings.

## ***Product Lines***

DRI's electronic destination sign systems and automatic voice announcement and vehicle monitoring, locating and security systems provide transit systems' customers with next stop, transfer point, route and destination information, vehicle location and operational condition information, and public service announcements, as well as security related functionality in certain instances.

**Passenger Information Systems** These consist of programmable electronic destination signs, automated voice-announced transit vehicle stops, next stop, transfer point, route and destination information, and public service announcements. These systems can be used in transit buses, light rail vehicles, trains, subway cars, people movers, monorails, airport vehicles and tour buses, as well as other private and commercial vehicles. Electronic destination sign systems are sold as TwinVision<sup>®</sup> and Mobitec<sup>®</sup> brand products. Message programming for all electronic destination sign system products is based on the company's proprietary ELYSÉ<sup>®</sup> software. Sign systems consist of both all-LED (light-emitting diode) products, which comprise the majority of destination sign systems in North America, and earlier-generation, mechanical "flip-dot" or "flip-dot/LED" products which account for a significant percentage of the company's European sign sales. DRI's principal passenger information products are the following:

- Talking Bus<sup>®</sup> next stop automatic voice announcement system and next stop internal signage

- Transit arrival signs and software

- Airport Shuttle Automatic Vehicle Location products and Arrival Signs

- TwinVision<sup>®</sup> all-LED (light-emitting diode) electronic destination sign systems

- TwinVision<sup>®</sup> Chromatic Series family of color electronic destination sign systems

- ELYSÉ<sup>®</sup> and Central Recording Station software

- Mobitec<sup>®</sup> electronic destination sign systems

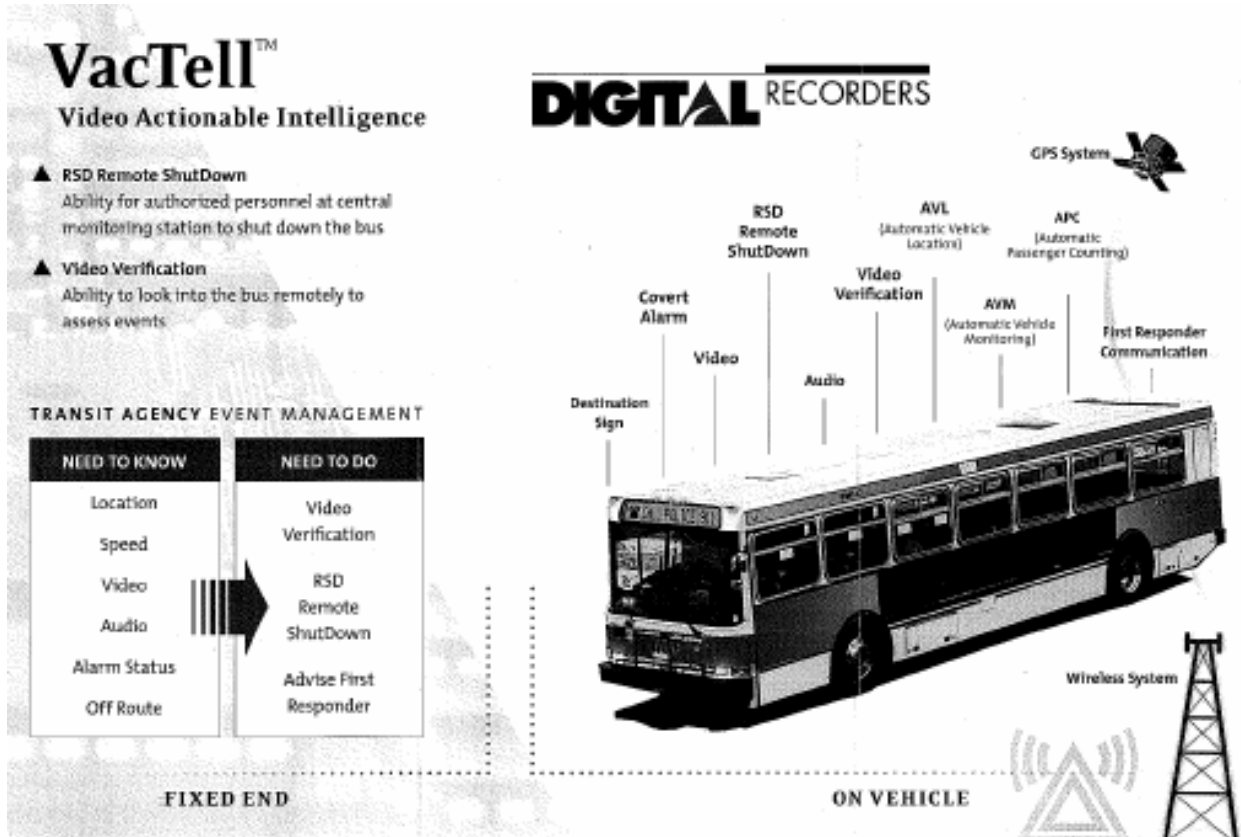
- Integration of and with vehicle sub-systems including destination signs, fare collection, automatic passenger counters, engine controllers, transmission, multiplexer, etc

**Intelligent Transportation Systems** ITS products were developed to enable transport system operators to enhance system efficiency by monitoring vehicle location, schedule adherence and vehicle health, and disseminate route, schedule and arrival information to passengers. Video monitoring systems also enable system operators to detect, monitor and respond to on-board incidents. ITS systems consist of the following:

Auto Vehicle Location (AVL) is a GPS-based system that enables transit system operators to track vehicle locations, and monitor vehicle performance and schedule adherence. AVL also gathers data that can be processed and disseminated to passengers in the form of route and schedule information.

Auto Vehicle Monitoring (AVM) is generally “piggybacked” onto AVL systems. It provides real-time monitoring and can, with the use of sensors, monitor a number of vehicle performance factors selected by the system operator, such as temperature and oil pressure. This data can be stored or transmitted to a central station, and used for maintenance planning. Both the AVL and AVM capabilities are built into the DR600 unit.

Video capability is based on six to eight cameras that record to a hard drive. The camera system can be activated either automatically or by the vehicle driver to record images to protected hard drive storage in the event of an on-board incident. Still images can be extracted centrally from the video stream – a feature that differentiates ITS from competing systems - and used by first responders to assess the severity of any threat. If necessary, the vehicle can be shut down from a central location, preventing an unauthorized person, e.g., a terrorist, from driving the vehicle to potentially vulnerable targets. Specific products that make up ITS, some of which are included in the illustration below, include the following:



DR600™, a vehicle logic unit for buses that provides automatic vehicle monitoring, automatic vehicle location, and automatic vehicle schedule adherence communication systems and programs, generally including GPS triggering of product features

Software Suite that provides modules for customized transit applications including computer-aided dispatch, automatic vehicle location, vehicle monitoring, wireless data exchange, and Central Recording Station

GPS vehicle tracking

VacTell™ video surveillance, recording and actionable intelligence products

Airport Shuttle Automatic Vehicle Location products and Arrival Signs

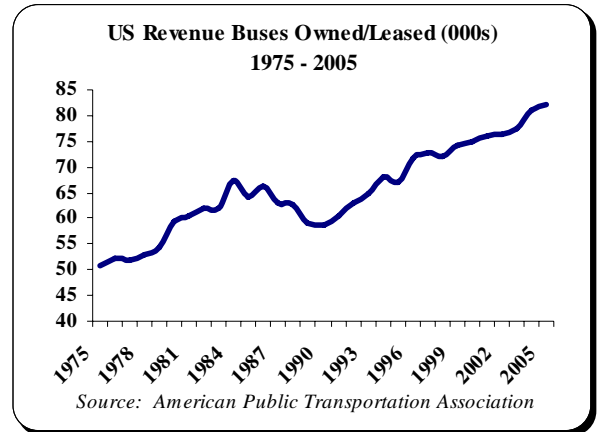
DRI’s passenger information and ITS product lines use open-architecture microprocessor-based electronic systems that facilitate compatibility with other vendors’ products.

## Markets

While the company's product lines are suitable for use across a wide range of mass transit vehicles, DRI's primary market, in terms of vehicles, is the passenger bus market. US bus passenger miles and (unlinked) bus trips, or boardings, during the past 30 years have remained generally flat, a reflection mainly of increased ridership on all modes – commuter, light and heavy - of rail transport. However, the number of buses in service in the US, as measured by the number of units owned or leased, has increased by 60% to more than 80,000 during that period. Despite flat longer-term bus ridership relative to railways, buses still, as of 2005, accounted for 44% of the 50 billion passenger miles and 60% of the 10 billion unlinked passenger trips seen in the US, by far the largest proportions among reported mass transit modes.

DRI's electronic signage systems are priced at around \$6,000 per vehicle. A full ITS package is priced at \$20,000, ranging higher depending on a transit system operator's "back office" requirements.

The trend reflected on the chart suggests a growing US market for DRI in both the OEM and transit system segments, which account for only a portion of the market. Extrapolating from a 2005 American Public Transportation Association (APTA) survey, almost 10,000 new revenue buses, mainly 40-foot transit buses, could be ordered in the US between 2006 and 2010, potentially expanding a number of transit system fleets or replacing units currently in service at a rate of 2,000 buses per year.



At revenue per OEM bus of \$20,000, estimated new vehicle orders in the US alone would represent an annual revenue opportunity of \$53 million. Refurbishment of vehicles already in service would also represent a sizable market opportunity, as would vehicle markets outside North America. While we do not have foreign bus figures available, DRI estimates that there are 1.4 million vehicles in service in Europe, the Middle East and North Africa and more than 500,000 in Latin America. Vehicle production figures compiled by the US Bureau of Transportation do not break out bus figures but overall commercial vehicle production figures for several potential overseas target markets suggest that their bus production rates could be significantly higher than they are in the US.

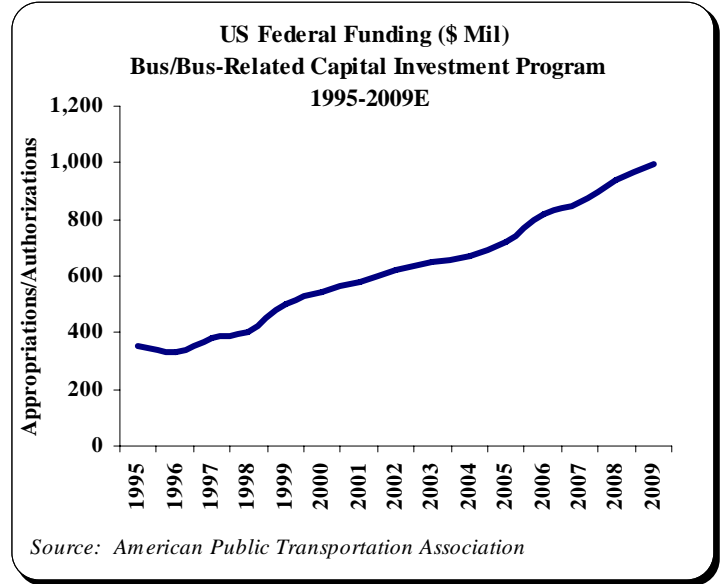
Between 1995 and 2005, worldwide commercial vehicle unit production increased at a CAGR of 5%, reaching 22 million vehicles in 2005. US commercial vehicle production growth for the period averaged only 3% annually. Canada averaged 2% for the period and Japan's production declined an average of 3% a year. Less developed countries, which arguably export some of the buses that they manufacture, showed much higher commercial vehicle production rates. China's commercial vehicle production increased three times faster than the US over the 1995-2005. India's production gains averaged almost as much, and South Korea, Mexico and Spain had double-digit rate annual gains in their commercial vehicle production.

If commercial vehicle production figures are a reasonably accurate reflection of bus production, DRI's markets outside of North America and Europe could contribute meaningfully to sales gains during the years ahead. Between 2002, the year after DRI made its overseas acquisitions, and 2007, the company's US sales declined an average of 2% a year, arguably a consequence of market weakness stemming from Federal funding uncertainties between the 3Q03 expiration of the US Transportation Equity Act and passage of the SAFETEA-LU Act in 3Q05. Sales to Europe were up only 4% a year during the period. But due to more intense marketing efforts in markets outside of North America and Europe, and the extension of its presence into new markets, DRI's sales to markets in less developed markets quadrupled to more than \$14 million, an average annual gain of more than 30%, without which DRI's revenue during that period would have been largely flat.

US Federal Funding Up to 80% of certain major capital expenditures can be eligible for U.S. federal funding. The remainder comes from a combination of state and local public funds and passenger fare revenues. While Federal funding accounts for less than 20% of all funding in the U.S. market, industry sources believe that it has a disproportionately significant impact on the market for bus equipment. Funding for markets outside of the U.S. comes from a variety of sources. These sources vary widely from region-to-region and from period-to-period but include combinations of local, regional, municipal, federal, and private entities or funding mechanisms.

In the US, growth of the passenger information communications market in mass transit vehicles has been influenced by Federal legislation, including the Americans with Disabilities Act (ADA), the Clean Air Act, the Intermodal Surface Transportation Efficiency Act (ISTEA) and the SAFETEA-LU Act. The ADA, which mandated that fixed-route transit systems announce major stops and transfer points to assist visually challenged passengers, accelerated development of automatic next-stop announcements.

A broader need to provide improved passenger information and customer services and security to operators and riders of public and private transit and transportation vehicles has also driven the market's growth. Mass transit operating authorities can generally apply to the U.S. Federal Transit Administration (FTA) for grants covering up to approximately 80% of funding for certain equipment purchases, with the remainder of funding provided by state and local sources. Privately run transit vehicles such as rental car shuttle vehicles and tourist vehicle operators that use transit communications products, are not eligible for Federal funding.



Federal funding specifically titled for bus and bus-related capital improvement programs has increased significantly since the mid-1990s, growing from \$350 million in 1995 to an authorized sum of \$992 million for 2009. Additional funding for buses is available from other Federal sources. The U.S. Transportation Equity Act for the 21st Century (TEA-21) provided for a six-year federal funding initiative that also covered buses and bus-related equipment. TEA-21 expired in 3Q03 and was temporarily extended through short-term stop-gap legislative pending the enactment of new long-term legislation. On August 10, 2005, new legislation, the Safe, Accountable, Flexible, Efficient, Transportation Equity Act —A Legacy for Users (SAFETEA-LU), was signed into law, proving a 46% increase in funding over the six year period, vs. the prior six years.

While Federal funding for bus capital investment was sustained between the expiration of TEA-21 and the enactment of SAFETEA-LU, growth in funding did slow in 2003 and 2004. Annual Federal appropriations remained fairly stable during the period, thanks to Congressional continuing resolutions that sustained funding. However, authorizations under these resolutions were doled out piecemeal, e.g., in increments of one- to two-month spending levels based on former old annualized TEA-21 appropriations.

Due to uncertainty as to future funding and smaller, rather than full-size annual appropriations, transit system operators significantly reduced order sizes or deferred larger purchases until sufficient funding was authorized. Hesitance on the part of transit system operators disrupted orders for capital equipment during the 2003-2005 period but in the aftermath of SAFETEA-LU's enactment, order flow strengthened. DRI began to experience increased sales of electronic destination signs for new buses, and other products purchased by the same customers. For 2007, DRI reported that engineered systems, or Intelligent Transportation System products, accounted for most of the company's US revenue gain.

## ***Competition***

The worldwide transportation communications marketed is a multi-segmented one that is served by several firms that compete on the basis of technology, ease of use, compatibility of products with those of other vendors, price, and customer service and support. Most, at least on a business segment/division basis, appear roughly equal in size (sales) to DRI.

DRI's largest competitor in the destination sign market is Luminator Holdings LC, a unit of closely held Mark IV Industries. Clever Devices Ltd. (annual sales estimated at \$25 million) competes with DRI in the US market for automated voice announcement systems.

Competing passenger information systems are also offered by Hanover Displays (UK) and Gorba AG (Switzerland), mainly in Europe and the Middle East. Hanover sells light emitting diode (LED) and flip-dot signs, wireless data transmitters and voice announcement systems. Gorba offers both sell audio and visual passenger information systems including liquid crystal displays (LCD), dot-/light LED and LED systems.

Management believes that approximately 95% of passenger information systems in the U.S. and 70% of those in major developed international markets are electronic. DRI believes that the company holds a significant market share in the U.S. The company has a leading market share of the passenger information systems market in the Nordic countries, significant market shares in Australia and South America, and a minor market share in Central Europe.

The company's largest competitors in the integrated systems market, Continental AG, which acquired Siemens AG's ITS business in 2007, and INIT GmbH. A third, Orbital Sciences Corp., is based in the US. INIT GmbH, which offers modular control, information display and fare collection systems, reported sales of \$70 million in 2007, up from \$54 million in 2006. Orbital Services' Transport Management Services segment showed 2007 sales of \$50 million, up from \$38 million in 2006.

## ***Strategy***

2010's year-end run rate target of \$100 million – implying an estimated \$87 million in revenue for the full year – implies a top line 2007-10 growth objective averaging 13% a year, vs. 2007's 18% gain and the average 7% revenue growth achieved during the 2001-2006 period. Relatively slow market growth in North America and Europe and the limited pricing flexibility suggested by historically flat gross margins pose growth challenges which DRI aims to surmount through marketing initiatives that can achieve continued penetration of less developed markets, ITS sales to foreign customers, and cross selling of ITS to existing passenger information (signs) systems customers, both domestically and overseas.

Growth plans for 2008 and beyond rest heavily on ITS gains and the opening of new overseas markets. As ITS have not yet been sold outside of the US, and currently account for around 25% to 30% of revenue, penetration potential appears ample. A sales mix tilt toward heavier ITS revenue could lead to improved profitability. While gross margins on passenger information systems have been largely flat, pricing on ITS is more flexible, potentially enabling DRI to earn gross margins on ITS that are five to ten percentage points higher than the company's current overall gross margin.

Foreign target markets include India, where DRI formed a joint venture in 2006, and Russia, where the company is contemplating establishing a subsidiary.

Worldwide ITS 2008 objectives include greater penetration of airport service vehicles such as intra-airport shuttles, car rental agency shuttles, baggage handling carts, fuel trucks and catering trucks. Such vehicles are still largely unmonitored, making them vulnerable to terrorist activity that could jeopardize high-value targets at airports. DRI systems are already in use on vehicles services six US airports, including international airports in New York (JFK), Los Angeles (LAX) and Baltimore (BWI).

Increased penetration of bus transit system operators, which account for 40% of DRI's revenue, is also a key objective for 2008. Due to the scale of its operation, the company's ability to service the largest transit system operators in the US, e.g., the MTA New York City Transit system (one million passenger trips a year), has been constrained. But the company already has a presence in the Philadelphia transit system (Southeastern Pennsylvania Transportation Authority), which ranks fourth in the US in terms of annual passenger trips, and in 2008 will begin efforts to penetrate the New Jersey Transit Corporation and the Washington (DC) Metropolitan Area Transit Authority, which rank sixth and seventh, respectively, in the US.

### ***Recent Developments***

***Major ITS Order*** On June 3, 2008, the company announced a \$408,000 order for intelligent transportation systems (ITS) from the Capital Area Transit (CAT) system in Raleigh, N.C. Products ordered include the computer-aided dispatch (CAD)/automatic vehicle location (AVL) system and the passenger advisory sign system (PASS) with online transit vehicle information access (OTvia 2). Product delivery is expected to begin in 2Q08 and conclude in 4Q08.

***Major Australian Order*** On May 22, 2008, the company announced an order for Mobitec electronic destination sign systems valued at approximately \$750,000. The Mobitec products were ordered by Volgren, the largest bus body building company in Australia, for new bus vehicles being built on behalf of Brisbane Transport in Queensland. Deliveries are expected to begin in 2Q08 and to conclude in 2Q09.

***Major Brazilian Order*** On May 13, 2008, the company announced an order for Mobitec electronic destination sign systems potentially valued at more than \$1 million through its 50 percent owned joint venture in Brazil. The Mobitec products will be installed on new bus vehicles being delivered to several bus vehicle operators in the Goiania region of Brazil. Deliveries have already begun and should be completed this year.

***New Product Launch*** On May 9, 2008, the company announced the launch of two new electronic destination sign system products, the TwinVision All-LED Smart Series and Chromatic Smart Series, both of which feature a more advanced processing system that has been integrated with the TwinVision All-LED and TwinVision Chromatic Series (Chroma I and Chroma IV) electronic destination sign systems

***Major Sign Systems Orders*** On April 4, 2008, the company announced that its subsidiary in Sweden received an order for Mobitec® electronic passenger information sign systems valued at more than \$480,000. Product delivery is scheduled to begin in 2Q08 and be completed by 4Q08.

### ***1Q 2008 Results***

***Operations*** In 1Q08, the company earned net income (to common shareholders) of \$648,000, or \$0.06 per share, on revenue of \$17 million, vs. a net loss to common shareholders of \$846,000, or (\$0.08) per share, on revenue of \$12 million for the year-earlier period. We had projected earnings per share to common shareholders of \$0.01 per share, on revenue of \$13.9 million.

Revenue (from continuing operations) was up 42% to \$17 million. In constant currency terms, revenue increased 32%, reflecting a currency translation gain of \$1.2 million. As overseas costs and expenses are incurred in local currency, and the company does not use currency hedging, currency had no impact on the operating margin.

Sales gains in all geographic markets except the Middle East were robust. In Asia-Pacific and South American, sales more than doubled. Robust gains were also seen in North America

(\$ 000)	1Q08	1Q07	% $\Delta$
North America	6,758	5,994	12.7%
Europe	5,151	3,621	42.3%
Asia-Pacific	2,374	1,047	126.7%
Middle East	225	299	(24.7%)
South America	2,517	1,039	142.3%
Total	17,025	12,000	41.9%

*Source: company reports*

and Europe, with sales rising 13% and 42%, respectively, in 1Q. During the period, sales outside of North American and Europe accounted for 30% of revenue, the highest undeveloped market revenue contribution rate since the company started its overseas expansion. The increase in Asia-Pacific sales was attributed in large measure to new revenue generated by a joint venture in India which began operations in 4Q07. That start up should ease sales comparisons through 3Q08.

The gross margin for 1Q increased to 35% from 30% in the year-earlier period. The US gross margin widened to 39% from 32% due largely to an increase in sales of ITS (currently sold only in the US) and a reduction in the US labor force in 2Q07. Gross margins overseas increased to 33% from 30%, an improvement attributed mainly to reduced prices on component parts.

Operating expenses for 1Q increased 17% to \$4.6 million due largely to a 20% increase in SG&A expenses to \$4.3 million. The rise in SG&A expenses was driven by an increase in overseas staff and higher compensation and benefits for existing overseas employees. The company also incurred higher legal fees relating to an assessment of any liability stemming from an agreement with The Castleton Group (see Risks), audit and tax fees and the engagement of an investment bank which assisted in strategic planning. R&D expenses dropped 14% to \$287,000.

Finances 1Q cash throw off from operations totaled \$1.5 million, all of which offset by increases in working capital, mainly a \$1.8 million increase in accounts receivable and a \$1.1 increase in inventory. Capital and software development expenditures consumed another \$360,000 in cash. Outflows were offset by \$1.4 million in borrowings, which enabled the company to increase cash by \$640,000 to \$1.4 million.

Financing Arrangements DRI is currently seeking new financing arrangements to replace an asset-based lending agreement with Laurus Master Fund, Ltd. that expires on June 30, 2008. Borrowings from Laurus are secured by all US tangible and intangible assets, provides up to \$6.0 million in borrowings under a revolving credit facility. The company may borrow an amount equal to 90% of eligible accounts receivable and up to \$2.0 million based upon 40% of eligible inventory. The interest rate on these borrowings is the Wall Street Journal prime rate (5.00% at May 19, 2008) plus 1.75%, subject to a floor of 8%. The agreement contains no financial covenants. At March 31, 2008, remaining borrowing availability under the revolving credit facility was approximately \$1.1 million.

In connection with the Laurus agreement, the company issued Laurus detachable warrants to purchase, at any time, 550,000 shares of common stock at \$0.10 per share. Those warrants were exercised June, 2007. The fair value allocated to the warrants of \$590,000, calculated using the Black-Scholes model, has been recorded as an asset to be amortized over the term of the Laurus Credit Agreement and was recorded as an increase in additional paid in capital.

Laurus agreed to own not more than 4.99% of the company's outstanding common stock at any time under the terms of agreement. That figure was increased to 9.99% under a December, 2006 agreement that also restricts the amount and timing of common stock sales made by Laurus.

In April, 2006, the company entered into a securities purchase agreement with Laurus whereby the company issued a one-year, 10% secured term promissory note for \$1.6 million, secured by all U.S. assets of the company. Pursuant to an amendment effective December 31, 2006, the \$160,000 fee due at maturity was eliminated and the company was allowed the option to extend up to \$500,000 of the principal amount due under the Laurus Note until April 30, 2008. Using proceeds received from the divestiture of DAC, on April 30, 2007, the company exercised its option to extend the principal amount due under the Laurus note until April 30, 2008 by making a payment of \$1.1 million to reduce the outstanding principal amount to \$500,000. The remaining \$500,000 was paid in April, 2008 with proceeds drawn from the \$6 million revolving credit facility.

Mobitec AB has an agreement with a Swedish bank from which it may borrow up to a maximum of 10 million Krona (\$1.7 million). In August, 2007, Mobitec AB converted 3 million krona (\$504,000) of the outstanding balance under this agreement to a loan with principal payments to be made in four installments. The outstanding

principal balance due on this loan at March 31, 2008 was 1.5 million krona, (\$252,000) with remaining installment payments of 500,000 krona (\$84,000) and 1 million krona (\$168,000) due on June 30, 2008 and September 30, 2008, respectively. At March 31, 2008, additional borrowing availability amounted to approximately \$218,000. This agreement is secured by certain assets of Mobitec AB. The \$1.2 million remaining borrowing capacity under this agreement renews annually on a calendar-year basis.

Mobitec AB also has an agreement, expiring December 31, 2008, under which it may borrow up to 9.0 million Krona (\$1.5 million). At \$1.5 million was outstanding as of March 31, 2008, leaving no additional borrowing availability. Borrowings are secured by accounts receivable. The average interest rate in 1Q08 was 6.4%

Mobitec GmbH has an open-ended term agreement with a German bank from which it may currently borrow up to a maximum of 512,000 Euros (\$809,000). At March 31, 2008, \$655,000 was outstanding, leaving additional borrowing availability of \$154,000. The line of credit, with a 1Q08 average interest rate of 5.5%, was collateralized by accounts receivable and inventories.

As of March 31, 2008, the company had the following outstanding:

- \$500,000 due on a secured term promissory note to Laurus Master Fund Ltd. bearing interest at 10%, with interest payable monthly in arrears, maturing April 30, 2008. As discussed above, the company retired the note on April 28, 2008 using funds drawn from the revolving credit facility with Laurus.
- Mobitec Brazil Ltda, the company's 50%-owned subsidiary, had outstanding borrowings of \$312,000 from two banks in Brazil. The borrowings are secured by accounts receivable on certain export sales by Mobitec Brazil Ltda, bear interest at rates ranging from 7.0% to 8.5%, and have a term of 180 days.
- A convertible subordinated debenture payable to a shareholder and Director of the Company, dated August 26, 2002, in the amount of \$250,000, with an annual interest rate of 8.0%, is due in full on August 26, 2009, if not sooner redeemed or converted.

## ***Projections***

***Operations*** We project 2008 net income (to common shareholders) of \$2.2 million, or \$0.17 per share, on revenue of \$70.6 million, vs. a 2007 profit (to common shareholders) of \$0.03 per share, on revenue of \$57.9 million. We had previously projected 2008 earnings (to common shareholders) of \$0.15 per share, on revenue of \$66.4 million. Our revised 2008 estimates reflect actual 1Q08 results as well as our outlook for stronger revenue and margin gains than we anticipated earlier. Current guidance from management calls for 2008 net income of \$0.14 to \$0.17 per share, on revenue of \$68 million to \$70 million. Additionally, management has targeted a 2010 year-end run rate of \$100 million, which would imply full-year 2010 revenue of around \$87 million.

For 2008 we project a 22% revenue gain driven by continued penetration of overseas markets and wider acceptance of the company's ITS product line, a factor which we believe will partly underlie gross margin gains for the year. The 4Q07 startup of a joint venture in India, which contributed significantly to overseas revenue gains in 1Q08, should ease revenue comparisons through 3Q08. The decline in the dollar relative to foreign currencies should also ease comparisons through 2008. But as foreign costs and expenses are incurred in local currencies, 2007-2008 currency movements should have little impact on the company's 2008 operating margin. SG&A expenses should rise as the level of sales activity rises but at a pace that will enable the company to achieve continued leverage of operating expenses. While 1Q08 R&D expenses dropped year-on-year, we project a full-year rise in R&D expenses, reflecting the company's efforts to enhance its product line.

For 2009, we project net income (to common shareholders) of \$2.6 million, or \$0.19 per share, on revenue of \$80.0 million. We had previously projected 2009 net income (to common shareholders) of \$2.1 million, or \$0.16 per share, on revenue of \$76 million. We anticipate a 15% revenue gain for 2009 due mainly to the same factors that we believe will underlie volume gains for 2008. Barring acquisitions or further startups, revenue comparisons

are likely to become more difficult as the anniversary of the 4Q07 India joint venture startup passes. If the dollar stabilizes at current levels or begins to appreciate relative to foreign currencies, the absence of favorable currency translation will also moderate revenue comparisons. Continued revenue growth and efforts to maintain competitiveness will account for a slightly greater increase in operating expenses but at a pace controlled enough to enable further leveraging of expenses.

Based on our operating forecasts, tax loss carryforwards will be exhausted by 1Q09, at which point the company's effective income tax rate for 2009 will increase to an estimated 37%, up from the 26% we project for 2008. The higher tax rate will offset much of the 34% increase we project in operating income for 2009.

Finances With net income increasing almost threefold in 2008, we project cash throw off of \$5.6 million for 2008 (vs. \$2.7 million in 2007), partly offset by a \$3.0 million sales-driven rise in working capital. Expenditures for equipment purchases and software development, some debt repayment, and preferred dividends will account for around \$1.1 million in cash, leaving, with an additional \$1.4 million in borrowings, a net \$2.9 million gain that will increase cash to \$3.6 million by year-end.

Higher profit for 2009 should increase cash throw off to \$6 million, of which \$2.7 million will be consumed by working capital needs. 2009 capital and technology development expenditures, and preferred dividends totaling an estimated \$1.1 million will leave a net cash gain of \$2.3 million, increasing cash, if borrowings are not reduced from projected levels, to \$5.4 million by year-end. The company will have to secure a new line of credit by June 30, 2008 but by our projections, should need no debt financing exceeding current levels through 2009.

## **Risks**

In our view, these are the principal risks underlying the stock:

Ability to Sustain Profits While we project improving profitability during the next two years, we note 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 high-interest borrowings, potentially by reducing its debt with the use of proceeds from stronger cash throw off and qualify for more conventional financing that is less costly.

The accountants' opinion on the December 31, 2007 financial statements contains a going concern qualification based on the company's statement that its cash resources are not sufficient to make payment in full on a \$3.8 million US line of credit payable on June 30, 2008. As of this writing, the company has not secured a new financing agreement. We have, however, forecasted the continuing availability of a credit facility, extended by a new lender, and have projected that the company's current debt capacity will be sufficient to fund operations through 2009.

Convertible Debenture The holder of the eight percent convertible debenture, can require the company to redeem the debenture in certain events, including certain changes in control or failure to continue to maintain the stock's listing on the NASDAQ Stock Market or another stock exchange. In such an event, the holder would have the right to require DRI to redeem the debenture for an amount equal to the principal amount plus an 18% annual yield on the principal amount through the date of redemption. The company might not have the ability to make the required redemption payments. The preferential rights of the holders of the convertible debenture and preferred stock could substantially limit the amount, if any, that the owners of common shares would receive upon any liquidation of the company.

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.

*Potential Obligations to US Employees* The Castleton Group, a payroll processing and personnel administrative services contractor that was the employer of record for the company's U.S.-based workforce, filed for Chapter 7 Bankruptcy protection on December 22, 2007 after being deemed insolvent by the North Carolina Department of Insurance. DRI has not yet been able to determine what obligations, if any, might result from Castleton's failure to comply with its obligations under the contract with DRI and what impact such the obligations might have on the company's financial condition. But management believes that liabilities, if any, would stem from Castleton's failure to remit withheld income taxes to the Internal Revenue Service. In light of a recent review by the company's attorneys, management has determined that the likelihood of any liability in this matter is remote and the financial consequences of any liability would not be material.

*Dilution* In connection with its financing arrangement with Laurus, the company has issued warrants on several occasions. DRI has also issued several series of convertible preferred stock in order to maintain a source of financing. Since 2004, almost 500,000 common shares have been issued in connection with warrant exercises and another 1.3 million have been issued in connection with preferred stock conversions. More could be issued in the future, potentially diluting future earnings further.

*Disclosure Controls and Procedures Weakness* Based on their evaluation, the CEO and CFO determined that, as of March 31, 2008, the company's disclosure controls and procedures are not sufficiently effective to ensure full and timely disclosure in its filings with the SEC. The following material weakness was identified in our internal control over financial reporting as of December 31, 2007 and is still outstanding as of March 31, 2008. The Company did not maintain effective controls over the accuracy and valuation of inventory. Specifically, effective controls were not in place to ensure direct production labor and overhead costs were properly capitalized in inventory; ensure an accurate and complete physical inventory was achieved and that the Company's inventory records were appropriately updated for the results of the annual physical inventory; and ensure that intercompany profits in ending inventories are properly eliminated. These control deficiencies could result in a misstatement of inventory and cost of sales that could result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected.

*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 11 million shares in the float. On average, approximately 26,000 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 raising our 12-month price target to \$5.00 from \$2.75 per share based on an upward revision in our estimates and expectations of expansion in the stock's price to sales multiple.*** DRI turned profitable less than a year ago; in light of risks to the sustainability of its growth momentum, which is based heavily on penetration of highly competitive overseas markets, we view the stock as suitable mainly for risk-tolerant accounts.

Capital IQ data on 71 stocks in the communications technology sector with market capitalizations of less than \$250 million show an average price to (trailing) sales multiple (after disregarding extreme highs) of 1.65X, vs. DRI's 0.51X, a disparity that could suggest significant upside valuation potential.

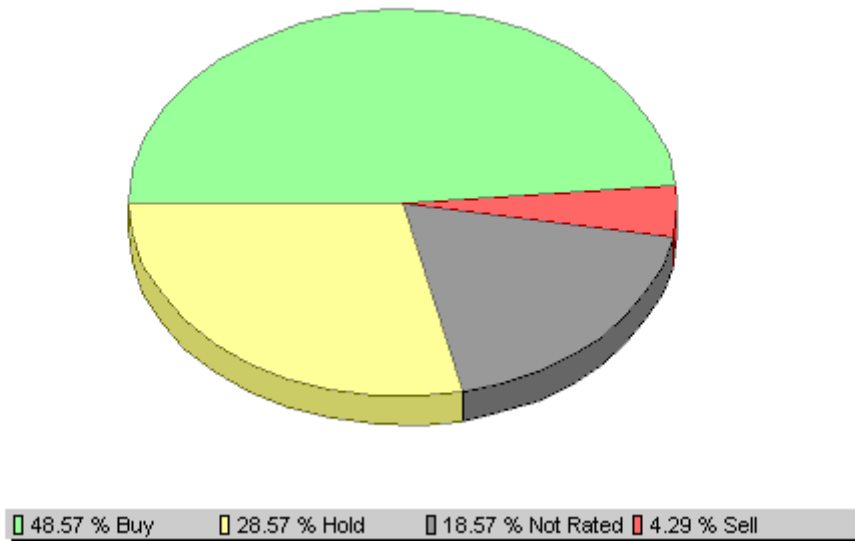
## DRI Corporation

We believe that as investors begin to discount 2009 results, they will accord the stock a valuation of \$5.00 per share, or roughly 0.8X estimated 2009 sales per share of \$5.98. Our target implies a doubling in the stock price during the next 12 months. The comparison group's (forward) P-E of 21.6X is, in our view, a less meaningful metric, as P-E data is available for only 20 stocks and these show wide variations. Our 2008 earnings projection of \$0.17 per share implies a forward P-E of 16.0X. Priced at our year-ahead target of \$5.00, the stock's P-E on estimated 2008 earnings would be 29.4X.

# DRI Corporation



## Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	1	7.14%
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.**

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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**

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

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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not have an investment banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In February, 2008, the company paid a monetary fee of US\$3,000, with another US\$3,000 paid in April, 2008, for the creation and dissemination of research reports. Thereafter, the company will pay a monetary fee of US\$1,750 monthly for the continued creation and dissemination of research reports for a one-year period commencing with the publication of an initial research report.

**I, Juan Noble, 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  
2005 – 2009E  
(\$ Thousands)

	2005A	2006A	2007A	2008E	2009E
Sales	43,087	49,161	57,932	70,572	80,797
Cost of sales	28,572	35,287	39,311	45,943	52,270
Gross profit	14,515	13,874	18,621	24,629	28,527
Operating expenses					
SG&A	18,029	15,555	15,216	17,585	18,828
R&D	1,483	1,463	1,149	1,314	2,020
Total	19,512	17,018	16,365	18,899	20,848
Operating income (loss)	(4,997)	(3,144)	2,256	5,729	7,679
Other income (loss)	317	(55)	103	122	40
Foreign currency gain (loss)	(301)	152	210	408	160
Interest expense	(481)	(1,508)	(1,197)	(1,305)	(1,323)
Pre-tax income (loss)	(5,462)	(4,555)	1,372	4,954	6,556
Income taxes	(176)	(331)	(291)	(1,262)	(2,437)
Profit (loss) before minority interest	(5,638)	(4,886)	1,081	3,693	4,120
Minority interest	(451)	658	(188)	(1,196)	(1,200)
Net income (loss) - continuing operations	(6,089)	(4,228)	893	2,497	2,920
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	(6,615)	(4,241)	380	2,195	2,616
Avg. shares outstanding	9,676	9,788	11,146	12,968	13,500
Net income (loss) per share to common shareholders	(0.67)	(0.43)	0.03	0.17	0.19
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%	34.9%	35.3%
SG&A	41.8%	31.6%	26.3%	24.9%	23.3%
R&D	3.4%	3.0%	2.0%	1.9%	2.5%
Operating margin	(11.6%)	(6.4%)	3.9%	8.1%	9.5%
Pre-tax margin	(12.7%)	(9.3%)	2.4%	7.0%	8.1%
Net margin	(14.1%)	(8.6%)	1.5%	3.5%	3.6%
Income tax rate	3.2%	7.3%	(21.2%)	(25.5%)	(37.2%)

Source: Company reports and Taglich Brothers estimates

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

	1Q08A	2Q08E	3Q08E	4Q08E	2008E	1Q09E	2Q09E	3Q09E	4Q09E	2009E
Sales	17,025	17,469	17,063	19,015	<b>70,572</b>	19,409	20,089	19,622	21,677	<b>80,797</b>
Cost of sales	10,993	11,416	11,131	12,402	<b>45,943</b>	12,560	12,998	12,693	14,019	<b>52,270</b>
Gross profit	6,032	6,053	5,932	6,612	<b>24,629</b>	6,849	7,092	6,929	7,657	<b>28,527</b>
Operating expenses										
SG&A	4,309	4,437	4,180	4,659	<b>17,585</b>	4,658	4,671	4,513	4,986	<b>18,828</b>
R&D	287	306	341	380	<b>1,314</b>	485	502	491	542	<b>2,020</b>
Total	4,596	4,743	4,522	5,039	<b>18,899</b>	5,143	5,173	5,004	5,528	<b>20,848</b>
Operating income (loss)	1,436	1,310	1,410	1,573	<b>5,729</b>	1,706	1,919	1,925	2,130	<b>7,679</b>
Other income (loss)	92	10	10	10	<b>122</b>	10	10	10	10	<b>40</b>
Foreign currency gain (loss)	163	100	100	45	<b>408</b>	40	40	40	40	<b>160</b>
Interest expense	(303)	(341)	(331)	(331)	<b>(1,305)</b>	(331)	(331)	(331)	(331)	<b>(1,323)</b>
Pre-tax loss	1,388	1,079	1,189	1,298	<b>4,954</b>	1,425	1,638	1,645	1,849	<b>6,556</b>
Income taxes	(370)	(270)	(297)	(324)	<b>(1,262)</b>	(384)	(655)	(658)	(740)	<b>(2,437)</b>
Profit (loss) before minority interest	1,018	809	892	973	<b>3,693</b>	1,041	983	987	1,109	<b>4,120</b>
Minority interest	(296)	(300)	(300)	(300)	<b>(1,196)</b>	(300)	(300)	(300)	(300)	<b>(1,200)</b>
Profit (loss) - continuing operations	722	509	592	673	<b>2,497</b>	741	683	687	809	<b>2,920</b>
Profit (loss) - discontinued operations										
Net profit (loss)	722	509	592	673	<b>2,497</b>	741	683	687	809	<b>2,920</b>
Preferred dividends	(74)	(76)	(76)	(76)	<b>(302)</b>	(76)	(76)	(76)	(76)	<b>(304)</b>
Amortization - pref stock discount										
Net profit (loss) - common shareholders	648	433	516	597	<b>2,195</b>	665	607	611	733	<b>2,616</b>
Avg. shares outstanding	12,873	12,900	13,000	13,100	<b>12,968</b>	13,200	12,600	13,300	13,400	<b>13,500</b>
Net income (loss) per share	0.06	0.03	0.04	0.05	<b>0.17</b>	0.05	0.05	0.05	0.05	<b>0.19</b>
Margin analysis										
Gross margin	35.4%	34.7%	34.8%	34.8%	<b>34.9%</b>	35.3%	35.3%	35.3%	35.3%	<b>35.3%</b>
SG&A	25.3%	25.4%	24.5%	24.5%	<b>24.9%</b>	24.0%	23.3%	23.0%	23.0%	<b>23.3%</b>
R&D	1.7%	1.8%	2.0%	2.0%	<b>1.9%</b>	2.5%	2.5%	2.5%	2.5%	<b>2.5%</b>
Operating margin	8.4%	7.5%	8.3%	8.3%	<b>8.1%</b>	8.8%	9.6%	9.8%	9.8%	<b>9.5%</b>
Pre-tax margin	8.2%	6.2%	7.0%	6.8%	<b>7.0%</b>	7.3%	8.2%	8.4%	8.5%	<b>8.1%</b>
Net margin	4.2%	2.9%	3.5%	3.5%	<b>3.5%</b>	3.8%	3.4%	3.5%	3.7%	<b>3.6%</b>
Income tax rate	(26.7%)	(25.0%)	(25.0%)	(25.0%)	<b>(25.5%)</b>	(26.9%)	(40.0%)	(40.0%)	(40.0%)	<b>(37.2%)</b>

Source: Company reports and Taglich Brothers estimates

DRI Corporation  
Balance Sheets  
2005 – 2009E  
(\$ Thousands)

	2005A	2006A	2007A	1Q08A	2008E	2009E
<b>Current assets</b>						
Cash + equivalents	807	611	729	1,372	3,103	5,406
Accts rec	8,425	10,368	11,919	14,107	13,722	15,711
Note rec - current			86	86	86	86
Other rec	211	147	465	652	494	566
Inventories	8,212	9,324	9,603	11,026	11,486	13,068
Prepayments & other	946	429	495	661	565	646
<b>Total</b>	<b>18,601</b>	<b>20,879</b>	<b>23,297</b>	<b>27,904</b>	<b>29,455</b>	<b>35,483</b>
<b>Fixed assets</b>						
Note rec - long-term portion			258	258	258	258
Goodwill	9,762	11,250	11,033	11,879	11,879	11,879
Intangibles	1,069	1,110	1,097	1,131	930	770
Deferred tax assets	231	191	56	30	282	323
Other assets	144	797	283	158	688	781
<b>Total assets</b>	<b>33,548</b>	<b>37,358</b>	<b>38,914</b>	<b>44,498</b>	<b>46,019</b>	<b>51,526</b>
<b>Current liabilities</b>						
Lines of credit	5,000	7,608	6,043	7,624	7,600	7,600
Notes pay		1,584	500	500		
Loan pay			391	564	466	466
Long-term debt (curr)	1,177	254	254	253		
Foreign tax settlement (curr)		393	499	511	450	450
Accts pay	5,537	5,620	6,246	7,219	6,381	7,260
Accruals	2,854	2,935	3,681	4,440	4,940	5,656
Preferred dividends pay	72	23	18	20	17	17
<b>Total</b>	<b>14,640</b>	<b>18,417</b>	<b>17,632</b>	<b>21,131</b>	<b>19,854</b>	<b>21,449</b>
Long-term debt/cap leases	68	42	14	8		
Foreign tax settlement		1,087	1,043	975	645	205
Deferred tax liabilities	382	383				
Liability for uncertain tax provisions			311	442		
Minority interest in subsidiary	892	234	422	718	700	700
<b>Shareholders' equity</b>	<b>17,566</b>	<b>17,195</b>	<b>19,492</b>	<b>21,224</b>	<b>24,820</b>	<b>29,173</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>33,548</b>	<b>37,358</b>	<b>38,914</b>	<b>44,498</b>	<b>46,019</b>	<b>51,526</b>

Source: Company reports and Taglich Brothers estimates

DRI Corporation  
Cash Flow Statements  
2005 –2009E  
(\$ Thousands)

	2005A	2006A	2007A	1Q08A	2008E	2009E
Operating activities						
Net income (loss)	(5,924)	(3,894)	893	722	2,497	2,920
Deferred income taxes	(90)	57	(243)			
Liability for uncertain income tax			149			
Depreciation/amort - fixed assets	1,290	1,333	1,070	233	1,243	1,454
Amortization:						
intangibles	110	111	138	39	159	160
deferred financing costs	122	271	279	63	258	260
beneficial conversion feature		212			0	0
fair value of warrants		278	245	57	252	260
Bad debt expense	265	240	26	41	41	0
Stock in lieu of cash compensation		63	76	19	64	60
Stock based compensation		50	41	17	47	40
Inventory obsolescence write down	1,410	122	141	4		
Loss of sale of fixed assets	10	11	(3)	2		
Other	220	(291)	(274)	42	(183)	(300)
Minority interest in subsidiary's income	451	(658)	188	296	1,196	1,200
Changes in working capital	2,309	(1,076)	(786)	(1,946)	(2,965)	(2,662)
Cash from operating activities - cont opns	173	(3,171)	1,940	(411)	2,609	3,392
Cash from operating activities - discount opns			(68)			
Investing activities						
Proceeds from sale of fixed assets	10	4	66			
Capital expenditures	(674)	(261)	(296)	(107)	(332)	(320)
Investment - software development	(1,020)	(201)	(669)	(255)	(705)	(640)
Proceeds - sale of DAC			1,100			
Cash from investing activities	(1,684)	(458)	201	(362)	(1,037)	(960)
Financing activities						
Proceeds (payments) - borrowings	(385)	3,415	(2,494)	1,432	1,408	
Proceeds - preferred stock	1,887	485	411			
Payments - new line of credit		(329)	0			
Payments - note pay		(81)	0			
Proceeds - common stock/options	149		189			
Preferred dividends	(147)	(128)	(118)	(27)	(123)	(128)
Cash from financing activities	1,504	3,362	(2,012)	1,405	1,285	(128)
Effect of exchange rate changes	(27)	71	57	11		
Net change in cash	(34)	(196)	118	643	2,857	2,304
Cash - beginning	841	807	611	729	729	3,103
Cash - ending	807	611	729	1,372	3,586	5,406

Source: Company reports and Taglich Brothers estimates