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PRESS RELEASE

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For Immediate Release

DIGITAL RECORDERS, INC. ANNOUNCES FOURTH QUARTER AND FISCAL YEAR 2006 RESULTS

DALLAS, March 29, 2007 – Digital Recorders, Inc. (DRI) (NASDAQ: TBUS), a digital communications technology leader in the transportation, law enforcement, and security industries, announced today that its net sales increased by 21.6 percent for fourth quarter 2006 and by 13.2 percent for fiscal year 2006, as compared to the same periods in 2005.

“Our sales results reflect improvement over last year’s same-period outcome for both the fourth quarter and the fiscal year. As a result of this progress, we have narrowed the net loss per share reported for the same periods last year. We also continue to be generally encouraged by U.S. transit market trends and indications on the transit bus vehicle side of our market,” David L. Turney, the Company’s Chairman, President, and Chief Executive Officer, said.

On March 28, 2007, the Company filed with the Securities and Exchange Commission (SEC) its Annual Report on Form 10-K for the period ended Dec. 31, 2006.

FOURTH QUARTER 2006 RESULTS

For the quarter ended Dec. 31, 2006, revenues were \$13.6 million and the net loss to common shareholders was \$2.0 million, or \$.21 per share. This compares to revenues of \$11.2 million and a net loss to common shareholders of \$2.3 million, or \$0.24 per share, for the same period in 2005. These amounts are after preferred stock dividends of \$78 thousand in fourth quarter 2006 and \$67 thousand in fourth quarter 2005.

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The fourth quarter 2006 loss included a \$1.5 million assessment related to Brazilian industrialized products tax, penalties, and interest levied on our 50 percent-owned Brazilian subsidiary. This settlement resulted in a net impact of \$750 thousand, after minority ownership, on our fourth quarter 2006 operating results. Due to the nature of this charge and the multiple-year periods involved, the amount – while recorded as a fourth quarter charge – is distributed among several accounts, including interest expense, net sales, and selling, general, and administrative expenses. This settlement does not impact the Company's right to appeal the decision of the Brazilian tax authorities under which the assessment was made; an appeal is being filed.

Additionally, the fourth quarter 2006 loss included a non-cash charge to interest expense of \$131 thousand related to the amortization of a beneficial conversion feature on a convertible subordinated debenture.

Weighted-average shares outstanding for fourth quarter 2006 were 9.8 million, as compared to 9.7 million for the same period in 2005.

FISCAL YEAR 2006 RESULTS

For the 12 months ended Dec. 31, 2006, revenues were \$51.3 million, as compared to \$45.3 million in 2005. The 2006 net loss to common shareholders was \$4.2 million, or \$0.43 per share. This compares to a net loss of \$6.5 million, or \$0.67 per share, for the same period in 2005.

The fiscal year 2006 net loss included: the \$1.5 million settlement of Brazilian industrialized products tax, penalties and interest, or \$750 thousand after minority ownership recorded in the fourth quarter 2006 as discussed in that period's results; \$212 thousand of non-cash charges to interest expense related to the amortization of beneficial conversion features on a convertible subordinated debenture held by the Company; and \$278 thousand of non-cash charges to interest expense related to the amortization of the fair value of warrants issued by the Company. These amounts are after preferred stock dividends of \$298 thousand in 2006 and \$203 thousand in 2005.

Weighted-average shares outstanding for the year ended Dec. 31, 2006, were 9.8 million, as compared to 9.7 million a year ago.

As of Dec. 31, 2006, the Company had \$2.5 million in working capital and \$17.2 million in shareholders' equity. This compares to \$4.0 million in working capital and \$17.6 million in shareholders' equity as of Dec. 31, 2005.

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OUTLOOK AND RECENT ACTIONS TO FURTHER REDUCE EXPENSES

U.S. Transit Market

Mr. Turney said he remains optimistic about the bus vehicle side of the U.S. transit market. “The American Public Transportation Association notes that ridership was up 2.9 percent in 2006 over 2005, and also that more than 10 billion trips were taken on buses and rail lines in 2006. *USA Today* recently highlighted the increasing use of transit bus and rail vehicles in a March 12 article, citing an example of a person who began using public transportation due to high gas prices who found doing so to be her longer-term choice even after gas prices dropped from near record-high levels. Indeed, we believe that the U.S. transit market has turned around from the slump created by stalled federal funding legislation during the 2004 and 2005 fiscal years.”

Order Backlog

“The Company’s order backlog was up by nearly 22 percent at year-end over the same period last year – a sharp improvement compared to the increase of just under 10 percent in 2005 over the same period in 2004,” Mr. Turney said.

Further validating market strength, Mr. Turney said it is his understanding that many of the Company’s bus vehicle manufacturer customers are citing order backlogs at record-high levels with respect to the past three years – with some even recently increasing their production line build rates.

Reduction of Expenses

Mr. Turney said the DRI management team again recently reassessed the Company’s domestic market segments in detail.

“During our domestic market segments’ reassessment, we observed that the market uptrend is not materializing as rapidly as previously expected for the engineered systems side of our U.S. operations. As a result, it would have been unwise to maintain our operational structure as in the past several quarters. Doing so would have overtaxed our financial position, as we discussed in considerable detail in our recently filed Form 10-K. As we assessed this picture, we took action,” Mr. Turney said.

In recognition of the slower-than-expected recovery of the engineered systems side of the Company’s business, Mr. Turney said the DRI management team has substantially completed a reduction in selected workforce positions, as well as allowed attrition to vacate certain other positions.

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“These recent actions resulted in a reduction of expenses of approximately \$1.4 million annually. This reduction of force was instituted to better align expenses and lower the Company’s breakeven point without significantly affecting key long-range product development plans or current customer service and support. In addition to these measures, we are continuing our efforts to reduce product costs; this work is expected to yield additional improvements. While these actions specifically address our domestic operations, similar assessments are underway within our international business units where we’ve already implemented certain re-alignments to improve our cost-reduction opportunities. Additional actions to enhance profitability also are being evaluated at this time,” Mr. Turney said.

Mr. Turney said that the DRI management team’s ongoing market segment analysis and reassessment of business units’ strategic business plans and longer term outlook are intended to help position the Company to best take advantage of the strengthening domestic market.

First Quarter 2007 Forecast

“Consistent with the analysis of our domestic and international market segments, we expect first quarter 2007 to be at about the same revenue level as posted for last year’s same quarter. Bottom line improvements yielded by the actions taken during first quarter 2007 to lower the Company’s breakeven point will have minimal impact on first quarter 2007 results. However, the impact of those improvements should be seen in second quarter and subsequent results,” Mr. Turney said.

FY2007 Outlook

“Overall, we presently expect fiscal year 2007 revenue to exceed that of 2006 in both our domestic and international segments,” Mr. Turney said.

SHAREHOLDERS’ CONFERENCE CALL

The Company’s senior management will discuss fourth quarter and fiscal year 2006 financial results, as well as the first quarter 2007 outlook, during an investors’ conference call on April 5, 2007, at 11 a.m. (Eastern).

To participate in the live call, dial one of the following telephone numbers at least five minutes prior to the start time: Domestic, (888) 868-9080; or International, (973) 935-8511.

Telephone replay will be available through May 15, 2007, via the following telephone numbers: Domestic, (877) 519-4471 (Code No. 8628970); or International, (973) 341-3080 (Code No. 8628970).

To participate via webcast, go to <http://www.viavid.net/detailpage.aspx?sid=00003D45>. The webcast will be archived until May 15, 2007.

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MARK YOUR CALENDAR

- On or about May 15, 2007, the Company expects to: (1) file with the SEC a Form 10-Q for first quarter 2007; and (2) distribute additional comments, including income statement and balance sheet data, in a separate news release.
- The DRI Annual Meeting of Shareholders will take place June 13, 2007, at the Hilton Raleigh-Durham Airport at Research Triangle Park, located at 4810 Old Page Road in Research Triangle Park, N.C. Registration and continental breakfast will begin at 9:30 a.m. (Eastern) and the business meeting will begin at 10 a.m. (Eastern). Shareholders of record at the close of business on April 25, 2007, are entitled to receive notice of, and to vote at, the Annual Meeting and any adjournment thereof.

ABOUT THE COMPANY

Digital Recorders, Inc. is a digital communications technology leader in the transportation, law enforcement, and security industries. Using proprietary hardware and software applications, our products improve the flow and mobility of people through transportation infrastructure, improve energy efficiency, mitigate security threats, and enhance law enforcement agencies' surveillance capabilities. Our transportation communications products – TwinVision® and Mobitec® electronic destination sign systems, Talking Bus® voice announcement systems, Digital Recorders® Internet-based passenger information and automatic vehicle location/monitoring systems, and VacTell™ video actionable intelligence systems – enhance public transportation and mitigate security threats worldwide. By assisting transit vehicle operators' quest to increase ridership, our products also help reduce dependence on fuel. Our DAC® electronic surveillance tools, including microphone amplifiers and processors, countermeasures devices, speech activity detectors, and noise cancellation equipment, help law-enforcement agencies around the globe arrest and prosecute criminals. For more information about DRI and its operations worldwide, go to www.digrec.com.

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FORWARD-LOOKING STATEMENTS

This press release contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, statements concerning future trends in the markets, both domestic and foreign, the magnitude and timing of an expected recovery in the industry, expected results from profit improvement initiatives, as well as any statement, express or implied, concerning future events or expectations is a forward-looking statement. Use of words such as “expect,” “fully expect,” “expected,” “appears,” “believe,” “plan,” “anticipate,” “would,” “goal,” “potential,” “potentially,” “range,” “pursuit,” “run rate,” “stronger,” “preliminarily,” etc., is intended to identify forward-looking statements that are subject to risks and uncertainties, including risks and uncertainties that we may incorrectly interpret current indicators as trends, the risk that we might incorrectly estimate the magnitude or timing of a recovery in the industry, if any, the risks that profit improvement initiatives may not prove beneficial or beneficial to the extent expected, the risk that recent results may not reflect positive future developments, as well as other risks and uncertainties set forth in our Annual Report on Form 10-K filed on March 28, 2007, particularly those identified in Risk Factors Affecting Our Business. There can be no assurance that any expectation, express or implied, in a forward-looking statement will prove correct or that the contemplated event or result will occur as anticipated.

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DIGITAL RECORDERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except shares and per share amounts)

	December 31,	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 611	\$ 807
Trade accounts receivable, net	10,368	8,425
Other receivables	147	211
Inventories	9,324	8,212
Prepays and other current assets	429	946
Total current assets	20,879	18,601
Property and equipment, net	3,131	3,741
Goodwill	11,250	9,762
Intangible assets, net	1,110	1,069
Deferred tax assets, net	191	231
Other assets	797	144
Total assets	\$ 37,358	\$ 33,548
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Lines of credit	\$ 7,608	\$ 5,000
Notes payable, net	1,584	-
Current portion of long-term debt	254	1,177
Current portion of foreign tax settlement	393	-
Accounts payable	5,620	5,537
Accrued expenses	2,935	2,854
Preferred stock dividends payable	23	72
Total current liabilities	18,417	14,640
Long-term debt and capital leases, less current portion	42	68
Foreign tax settlement, net of current portion	1,087	-
Deferred tax liabilities	383	382
Minority interest in consolidated subsidiary	234	892
Commitments and contingencies		
Shareholders' Equity		
Series E Redeemable, Nonvoting, Convertible Preferred Stock, \$.10 par value, liquidation preference of \$5,000 per share; 500 shares authorized; 183 and 207 shares issued and outstanding at December 31, 2006, and December 31, 2005, respectively; redeemable at the discretion of the Company at any time.	495	615
Series G Redeemable, Convertible Preferred Stock, \$.10 par value, liquidation preference of \$5,000 per share; 600 shares authorized; 379 and 343 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively; redeemable at the discretion of the Company after five years from date of issuance.	1,613	1,434
Series H Redeemable, Convertible Preferred Stock, \$.10 par value, liquidation preference of \$5,000 per share; 600 shares authorized; 54 and 50 shares issued and outstanding at December 31, 2006, and December 31, 2005, respectively; redeemable at the discretion of the Company after five years from date of issuance.	222	202
Series I Redeemable, Convertible Preferred Stock, \$.10 par value, liquidation preference of \$5,000 per share; 200 shares authorized; 104 and 0 shares issued and outstanding at December 31, 2006, and December 31, 2005, respectively; redeemable at the discretion of the Company after five years from date of issuance.	471	-
Series AAA Redeemable, Nonvoting, Convertible Preferred Stock, \$.10 par value, liquidation preference of \$5,000 per share; 20,000 shares authorized; 178 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively; redeemable at the discretion of the Company at any time.	890	890
Common stock, \$.10 par value, 25,000,000 shares authorized; 10,045,675 and 9,733,515 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively.	1,004	973
Additional paid-in capital	31,517	30,446
Accumulated other comprehensive income - foreign currency translation	3,397	1,526
Accumulated deficit	(22,414)	(18,520)
Total shareholders' equity	17,195	17,566
Total liabilities and shareholders' equity	\$ 37,358	\$ 33,548

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DIGITAL RECORDERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Year Ended December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net sales	\$ 51,338	\$ 45,345	\$ 47,773
Cost of sales	<u>36,607</u>	<u>30,003</u>	<u>29,827</u>
Gross profit	<u>14,731</u>	<u>15,342</u>	<u>17,946</u>
Operating expenses			
Selling, general and administrative	16,065	18,537	17,472
Research and development	<u>1,475</u>	<u>1,637</u>	<u>1,916</u>
Total operating expenses	<u>17,540</u>	<u>20,174</u>	<u>19,388</u>
Operating loss	<u>(2,809)</u>	<u>(4,832)</u>	<u>(1,442)</u>
Other income (loss)	(55)	317	178
Foreign currency gain (loss)	151	(301)	55
Interest expense	<u>(1,508)</u>	<u>(481)</u>	<u>(908)</u>
Total other income and expense	<u>(1,412)</u>	<u>(465)</u>	<u>(675)</u>
Loss before income tax expense	(4,221)	(5,297)	(2,117)
Income tax expense	<u>(331)</u>	<u>(176)</u>	<u>(973)</u>
Loss before minority interest in (income) loss of consolidated subsidiary	(4,552)	(5,473)	(3,090)
Minority interest in (income) loss of consolidated subsidiary	<u>658</u>	<u>(451)</u>	<u>(102)</u>
Net loss	(3,894)	(5,924)	(3,192)
Provision for preferred stock dividends	(298)	(203)	(284)
Amortization for discount on preferred stock	<u>(49)</u>	<u>(323)</u>	<u>-</u>
Net loss applicable to common shareholders	<u>\$ (4,241)</u>	<u>\$ (6,450)</u>	<u>\$ (3,476)</u>
Net loss per share applicable to common shareholders			
Basic and diluted	<u>\$ (0.43)</u>	<u>\$ (0.67)</u>	<u>\$ (0.49)</u>
Weighted average number of common shares and common share equivalent outstanding			
Basic and diluted	<u>9,787,599</u>	<u>9,675,580</u>	<u>7,149,544</u>

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