

# FINAL TRANSCRIPT

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## **RSYS - Q3 2008 RadiSys Corporation Earnings Conference Call**

Event Date/Time: Oct. 28, 2008 / 5:00PM ET

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## CORPORATE PARTICIPANTS

**Scott Grout**

*RadiSys Corporation - President and CEO*

**Brian Bronson**

*RadiSys Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Rajiv Duvay**

*Jefferies & Company, Inc. - Analyst*

**Matt Petkun**

*D.A. Davidson & Co. - Analyst*

**Ed Jackson**

*Cantor Fitzgerald - Analyst*

**David Nierenberg**

*Nierenberg Consulting - Analyst*

**Harry Maurice**

*HIC Capital - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the RadiSys third quarter earnings conference call with Scott Grout, President and CEO of RadiSys. As a reminder, today, Tuesday, October 28th, 2008, this call is being recorded. Later, we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS)

Mr. Grout, please go ahead.

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**Scott Grout** - *RadiSys Corporation - President and CEO*

Thank you, Anita. Good afternoon and thank you for participating in our third quarter conference call. In this call, we'll review our financial and strategic results for the third quarter as well as our outlook for the fourth quarter, and then open the call up to questions. Participating on the call today are Brian Bronson, our Chief Financial Officer, and myself, Scott Grout, President and CEO.

Before I get started, let me turn the call over to Brian for a caution about forward-looking statements.

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**Brian Bronson** - *RadiSys Corporation - CFO*

Thanks, Scott. Any statements in this call regarding future expectations for the business of RadiSys constitute forward-looking statements and involve a number of risks and uncertainties. We caution you to not place undue reliance on these statements. Factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our earnings release today and in our SEC filings. All information provided in this call is as of today. RadiSys undertakes no duty to update any forward-looking statement to conform th statement to actual results or changes in the company's expectations.

Now, I'll turn the call back over to Scott.

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**Scott Grout** - RadiSys Corporation - President and CEO

Thanks, Brian. So, our results for the quarter reflected really significant progress we've made on executing our strategy to provide higher value next generation embedded solutions. Our revenue was \$100 million for the third quarter, which was up 20% over the prior year and a record for the company. Our GAAP net loss was \$0.01 per share improving by \$0.10 from last year. Our non-GAAP EPS was \$0.21, and improved by \$0.09, or 75% over last year.

We've seen meaningful growth in demand for our ATCA products this year, as some of our new customers have begun deploying our products at production levels. We have also seen growth in our media server product line this year in the IP conferencing space and growth in all three geographies, North America, Europe and Asia Pacific. We also see new opportunities in other media server applications such as messaging, call center, voice services, and interactive voice recognition as our target markets move from TDM to IP-based networks.

Our non-GAAP gross margin rate has improved from 25% in Q2 of last year to 30.8% in this last quarter. We made tremendous progress on our overall operating results in the third quarter and generated \$7 million in cash flow from operating activities. We also significantly strengthened our balance sheet and ended the third quarter with \$140 million in total cash and investments, and have a commitment from UBS to purchase all of our outstanding ARSs, at par, which Brian will talk about later. We have also made significant progress in diversifying our customer base as revenue from our next generation products grows. Over the past year or so, six new customers have entered into our top ten list. We have shipped ATCA systems to over 15 new customers.

Our top five customers for the quarter were in alphabetical order, Agilent, Danaher, Nokia Siemens Networks, Phillips Healthcare, and a new tier one telecom customer deploying our ATCA platform. Collectively, these top five customers represented 59% of our revenue for the quarter. Our revenues to Nokia Siemens Network in the third quarter represented 38% of our total company revenue. We continue to expect to see fluctuations in our top customers from quarter to quarter.

I would now like to talk about some of the highlights from the quarter in terms of new products and applications. Overall deployment and delivery of our new communications product continued to go well in the third quarter, and our year-to-date next generation COMs revenue are tracking to our previous projection of over \$90 million for the full year. One of our new tier one customers has entered into field trials using our ATCA platform for wireless voice quality enhancement with a major US carrier. In another case, a new customer that provides next generation IP networking solutions had multiple end customer valuations begin with our ATCA platform.

In the medical space, our new RMS420 image processing server was released to two of our tier one medical imaging customers, and production shipments are expected to begin in the fourth quarter. We won new designs in the third quarter across a diverse set of applications in both our communications and our commercial markets. Applications included satellite broadband, gigabit PON, medical diagnostics and imaging, conferencing, test and measurement, video networking, session border control, in vehicle monitoring and network security, and packet inspection. I continue to be pleased with the level of higher value system and platform business that we have won to date and the number of new customers who have awarded us business.

Within our Promentum ATCA family of products, we announced a new high capacity 16-slot platform that provides the maximum number of billable application slots in an ATCA carrier grade system. This platform delivers the highest density of 10 Gigabit switching, packet processing, and media processing capabilities available in a managed ATCA platform. We also announced a new low profile two slot ATCA platform that provides a scalable solution for specialized applications such as security and traffic management.

Also in the quarter, we launched a new validation lab for our global partners and customers to remotely test, validate and demonstrate their unique solutions on RadiSys ATCA platforms. Finally, in ATCA, last week we were chosen as the best of show

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award winner by the ATCA Forum. The criteria used by the panel of judges were distinctiveness of the technology, best use of ATCA, and technical and business significance. We're honored to be recognized with this award.

Within our Convedia media server family of products, we announced a comprehensive set of features targeted at contact center applications using our IP media server platform. Our Convedia product family has real time audio, video and new, embedded track media processing capability that provides a common feature rich platform designed for next generation contact centers.

Within our Proclerant COM E family of products, we announced the availability of four new COM Express modules, all powered by Intel Core 2 processor technology and Intel mobile chip sets. The new compact COMs are ideal for portable devices in medical and machine imaging that mandate processing performance, high throughput communications and low power.

With those highlights of the business, I would now like to turn the call over to Brian who will give you some information about the third quarter financial results and some projections for the fourth quarter.

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**Brian Bronson - RadiSys Corporation - CFO**

Thanks, Scott. As Scott mentioned, revenue and per share results were up nicely over the prior year. Our non-GAAP gross margin rate was 30.8%, up 3.4 points year over year and up 1.4 points in the second quarter due to a greater mix of next generation higher margin products. Our GAAP gross margin percentage was 26.7%, up 3.8 points year over year. We currently expect our fourth quarter gross margin percent to be similar to our rate in the third quarter at the midpoint of our guidance range.

GAAP R&D and SG&A expenses totaled \$24.7 million in the third quarter. Non-GAAP R&D and SG&A totaled \$22.5 million which was down about \$1.4 million from the prior quarter. The decrease was mainly due to lower R&D expenses of \$1.1 million related to second quarter restructuring actions, along with lower projection expenses. We currently expect third quarter (Sic-see press release) non-GAAP R&D and SG&A expenses to be down again sequentially by about \$750,000 as a result of previously-announced expense reductions.

Third quarter net nonoperating expense which includes interest income, interest expense and other nonoperating items was \$40,000. We currently expect nonoperating expense to be around \$250,000 in the fourth quarter.

Our third quarter non-GAAP tax rate was 31% and our GAAP tax rate was 132%. Our effective tax rate was much higher than expected due to the US dollar strengthening against the Canadian dollar. As I mentioned previously, we have a (inaudible) amount of Canadian dollars in nominated deferred tax assets. A stronger US dollar lowers the value of DTAs and that flows directly to the rate. Given the direction of the US dollar relative to the Canadian dollar, we will continue to experience volatility in our tax rate through Q1 2009. After Q1 '09, we'll be able to lock in a permanent exchange rate with the Canadian tax authorities. We currently expect our fourth quarter GAAP tax rate to be around negative 20% and our non-GAAP tax rate to be around 40%.

Our basic weighted average shares increased to 22.7 million in the third quarter from 22.4 million in the second quarter. Q3 non-GAAP diluted weighted average shares were 29.1 million which includes the remaining shares associated with our old converts of 1.6 million and the new converts of 4.2 million. For the fourth quarter, we expect the dilutive threshold to be 1.9 million which includes both converts, \$383,000 of interest add back, and 5 million shares. We project Q4 dilutive shares to be 28.4 million with both converts and 23.3 million without. Starting in 2009 and thereafter, only the new convert will be left with \$321,000 of interest add back and 4.2 million shares.

Moving to cash in the balance sheet, cash flow from operating activities was \$6.9 million in the third quarter for a total of \$23.2 million year-to-date. We ended the quarter with \$140 million of total cash and investments. \$84 million of the total was in cash and cash equivalents, and \$56 million is in student loan auction rate securities with UBS. This month, we accepted an offer from UBS that requires the bank to repurchase, at par, \$63 million in student loan auction rate securities no later than June 30, 2010.

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We're also eligible for a no net interest loan for 75% of the market value of the ARSs until they're repurchased by UBS. Which equates into about \$40 million.

In September, we drew down \$20 million from our available \$30 million line of credit from Silicon Valley Bank for precautionary reasons due to the state of the credit markets. We anticipate paying off the remaining 37.5 million of our old converts in November which, assuming current cash and investment levels, leaves us with [\$103] million of total cash and investments, of which \$46 million would be short term. We currently expect cash flow from operating activities to be around \$5 million to \$7 million in the fourth quarter.

DSO improved from 52 days in the second quarter to 45 days in the third quarter. The improvement in DSO is a result of deferred revenue in the second quarter recognized in the third quarter, along with improved linearity in shipments and strong collections. I expect DSO to be back into the 50s in the fourth quarter.

Net inventory decreased \$2.2 million mainly due to lower raw material inventory at the end of the quarter. Inventory turns were 8.9 in the third quarter which is up from 8.3 in the second quarter. I expect to continue to see gradual improvement in our inventory position over the next couple of quarters.

Now, I'll turn the call back over to Scott to talk about the outlook for the fourth quarter.

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**Scott Grout** - RadiSys Corporation - President and CEO

Thanks, Brian. Regarding our outlook for the fourth quarter, please note that this is our view as of today, as a forward-looking statement subject to risks and uncertainties, as discussed previously and in our press release made available earlier today. Given the ongoing global economic turmoil, our estimates are subject to a higher level of uncertainty than in the past, and they assume no material reductions in demand in our target market.

We currently expect fourth quarter revenues to be between \$81 million and \$87 million, and down sequentially, in part due to higher deferred ATCA revenue recognized last quarter, as well as projected sequential decrease in our wireless market revenues. We expect fourth quarter GAAP results to be a net loss of \$0.29 to \$0.16 per share, and non-GAAP results to be net income of \$0.06 to \$0.12 per diluted share.

As mentioned earlier, we expect our next generation communications product revenues to be at or above prior projections of over \$90 million for the full year. While we're seeing more uncertainty in projected demand due to macroeconomic factors, bookings thus far are tracking to our fourth quarter outlook and we have not seen any meaningful order cancellations.

In this climate of economic uncertainty, we're managing our business with caution and will continue to be highly focused on cash and cash flow. Looking back, we have a strong track record of generating cash in both good and difficult times. With our strong cash position, our market leading products, our global customer diversity and a seasoned leadership team, we have a strong foundation to weather challenging economic conditions. I'm very pleased with our financial and strategic progress thus far this year including the growing momentum we're seeing with our new higher value products, as well as the progress in expanding our gross margin rate.

With that, I would like to turn the call over to participants and open the Q&A session with Anita.

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## QUESTIONS AND ANSWERS

### Operator

Certainly, sir. (OPERATOR INSTRUCTIONS) Your first question comes from the line of George [Notter] of Jefferies. Sir, your line is open.

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### Rajiv Duvay - Jefferies & Company, Inc. - Analyst

This is actually Rajiv [Duvay] subbing for George. Just a couple questions here. One, on the commercial division, we're obviously looking at a pretty turbulent microenvironment right now. In the past, you guys have talked about the medical and testing field softening a little bit. It sounds like that leveled out. I'm wondering how we should think about the other verticals on the commercial side. As we look into next year, how much visibility do you have in those accounts, how dependent are you on new customer wins with those growing, existing accounts? Any color there would be helpful.

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### Scott Grout - RadiSys Corporation - President and CEO

Since you mentioned medical and custom measurement, really the mainstay within commercial, and indications we have thus far, the order fill has held up well, as I've mentioned. We introduced a new product that will bring a new tier one medical imaging customer into our revenue stream. That should be helpful to us. Some of the other verticals within commercial, at this point, we're not seeing definitive kinds of softness on a go-forward basis, but I think, just reading the headlines and thinking about possible ripple effects, there certainly is a possibility there.

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### Rajiv Duvay - Jefferies & Company, Inc. - Analyst

Okay. Do you still expect the medical business to grow in the second half?

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### Brian Bronson - RadiSys Corporation - CFO

To grow in the second half but I think we -- medical was what? \$32 million in 2007. It probably will be flat to slightly down for the year. And I haven't calculated the second half, to answer your question, but for the year, it is flat to slightly down business '08 over '07.

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### Rajiv Duvay - Jefferies & Company, Inc. - Analyst

That customer you referred to on the last call, the new medical imaging customer, should I assume they haven't kicked in yet?

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### Brian Bronson - RadiSys Corporation - CFO

No. Not in a meaningful way.

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### Rajiv Duvay - Jefferies & Company, Inc. - Analyst

Okay. My last question is on AT&T. I didn't hear their name on the top five. How should we think about that opportunity as you look at next year. Any sort of color and how big to be size-wise?

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**Scott Grout** - RadiSys Corporation - President and CEO

So, continuing to do well with AT&T. As we talk about all the time, the top five, you'll have some that are way at the top as they come in and come out. We only list them in alphabetical so it's kind of hard to tell where their position is. Business with them continues to be good. Application continues to be good. We're all watching carefully to see what overall CapEx is going to look like going into next year. And no real meaningful insight into that. I can tell you, though, that the application we're on is a critical application for them.

**Rajiv Duvay** - Jefferies & Company, Inc. - Analyst

Okay, great. Thank you.

**Operator**

Your next question comes from the line of Matt Petkun of D.A. Davidson & Co. Sir, your line is open.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

Hi. Sorry I missed part of the last question, Brian. I think that he was asking about gross margin next quarter and you said it would be flat or slightly down?

**Brian Bronson** - RadiSys Corporation - CFO

It was actually commercially. Reference to commercial, particularly medical.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

I'm asking then just about margin and more importantly, if the higher deferred carried a higher gross margin, the deferred revenues associated with the ATCA deals carried a higher gross margin. And if that will have an impact on margin for next quarter.

**Brian Bronson** - RadiSys Corporation - CFO

I think I mentioned in the script, you didn't you pick it up, Matt, I expect gross margin rate to be similar to that in the third quarter. You mentioned it. I think it is accurate to say that ATCA, particularly at the system level, does have higher gross margins and that was a contributor to the Q3 margin mix. But Q4, as you know, we have other levers, the media server and some of our next gen business that on a rate business helped.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

Okay, great. And then one other question just on the product front, Scott. You highlighted a number of new products. Anything going on? I know it is not a big product line but in the quad Core around new Blade Server.

**Brian Bronson** - RadiSys Corporation - CFO

We do have a couple of quad core designs that are underway and expect to go into trial mode with customers end of this quarter, beginning of next quarter.

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**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

In your press release, you talked about that one new tier one customer in wireless networking. Wondering at what point we might be able to see more than one meaningful customer in the wireless segment for you.

**Brian Bronson** - *RadiSys Corporation - CFO*

They were actually -- of course, the top five. So we have MSN, Nokia Siemens Network in the top five, and another wireless provider as a top five customer. I would expect, as more of these programs start to ramp up, we've got particular strength in the wireless area. So in addition to those two, I would expect to start seeing visibility (inaudible).

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

But I guess, what I'm referring to is if you had -- the top five customer that you picked up this quarter was on the IP networking side.

**Brian Bronson** - *RadiSys Corporation - CFO*

No, it was a Wireless application. Quality enhancement for wireless.

**Scott Grout** - *RadiSys Corporation - President and CEO*

And, Matt, the revenue would be showing up in the other communications line.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

Okay.

**Brian Bronson** - *RadiSys Corporation - CFO*

I think that answers your question.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

That was the question just because obviously your largest customer made up all of what you broke out for pure wireless.

**Brian Bronson** - *RadiSys Corporation - CFO*

That's correct.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

How do you differentiate those two?

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**Brian Bronson** - *RadiSys Corporation - CFO*

It is exactly how you pitched it. We've got work to do over the next couple of quarters to change the way we communicate there.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

And then just one final question. You guys have obviously made a ton of progress on really on all fronts. One thing that I think some of us would love a little bit of an update on, if only qualitatively, Scott, is we've stopped talking about design wins and number of customers and the total opportunity because clearly, the opportunity is big. But if you look back to a year ago when you talked about roughly 50 new designs on ATCA type platforms with new customers, or 50 new customers, how does that sort of backlog or design win funnel look today and what's the relative health of some of those deals, and what are your expectations for continued really branching out of your customer base over the next year?

**Scott Grout** - *RadiSys Corporation - President and CEO*

In terms of adding to the 50 new customers that we had talked about in the past, the count and level of new customer acquisitions continues to be pretty good. So, each quarter of the three quarters we went through this year, we've seen some pretty meaningful new additions in terms of design wins. In terms of new customers coming in from account perspective, that continues to go well. The new customers we acquired a year ago, two years ago, et cetera, most of those programs continue to move along. We're seeing some go into production now. A number of them that are still in development mode. So qualitatively, the design wins from before from a customer perspective and a program perspective have hung in there pretty well.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

That's all for me for now.

**Scott Grout** - *RadiSys Corporation - President and CEO*

General level of interest and new application opportunities for ATCA continues to be strong.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

Great.

**Scott Grout** - *RadiSys Corporation - President and CEO*

Thanks, Matt.

**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

Thank you.

**Operator**

your next question comes from the line of Ed Jackson with Cantor Fitzgerald. Your line is open.

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**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Hey, guys, how are you? Couple of questions. One, Brian, is when you went through the outlook on the fourth quarter share count, I actually just couldn't type fast enough and I missed what you said.

**Brian Bronson** - *RadiSys Corporation - CFO*

So, what do you want to know specifically? The Q4 breakdown?

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Yes, if you could just read fourth quarter. Share count portion of your presentation.

**Brian Bronson** - *RadiSys Corporation - CFO*

So, for Q4, the dilutive threshold is \$1.9 million. Did you pick up on that, Ted? It depends on where you're at on the guidance range, whether the dilutive shares are in or out. It includes 383,000 of interest add back and 5 million shares. So, the total would be somewhere between 28.4 and 5 million less than that, depending on where you're at in the net income threshold.

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

And then could you give me your thoughts relative to fourth quarter CapEx depreciation?

**Brian Bronson** - *RadiSys Corporation - CFO*

Yes, I think it would be about the same as the third quarter which CapEx was about \$1.3 million and depreciation was about -- excuse me, \$1.5 million.

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Okay. And then -- actually, you answered that one. So, if I understood it right, what you had just said relative to the last question -- this is actually what you said, Scott -- is that the voice quality wireless win, that's why the other portion of the COM revenue was up so strongly sequentially?

**Scott Grout** - *RadiSys Corporation - President and CEO*

That is correct.

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Okay. And then the outlook relative to wireless in the fourth quarter, do you expect that to be down sequentially?

**Scott Grout** - *RadiSys Corporation - President and CEO*

Correct.

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**Ed Jackson** - *Cantor Fitzgerald - Analyst*

And would you give some color maybe on some of the other revenue lines?

**Scott Grout** - *RadiSys Corporation - President and CEO*

Just comment on the wireless. It is within the range of variability that we've seen quarter to quarter over the last couple of years. We're not reading anything big into that at this point. Other lines of revenue --

**Brian Bronson** - *RadiSys Corporation - CFO*

You know, I think, Ted, to boil it down, I talked about wireless, the other piece really is deferred revenue that was billed up through Q2. We recognize in Q3, as we mentioned in the press release, between ATCA et cetera normalizing in the fourth quarter and wireless being down, all their lines of business are quote-unquote holding in there relative to Q3.

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Okay.

**Brian Bronson** - *RadiSys Corporation - CFO*

So, it is really ATCA deferred revenue and wireless.

**Ed Jackson** - *Cantor Fitzgerald - Analyst*

Okay. That's pretty much it. I appreciate it.

**Scott Grout** - *RadiSys Corporation - President and CEO*

Thanks, Ed.

**Operator**

Your next question comes from the line of David Nierenberg of Nierenberg Consulting. Sir, your line is open.

**David Nierenberg** - *Nierenberg Consulting - Analyst*

Hey, guys, I just want to thank and congratulate you on a pretty sparkling quarter during challenging macroeconomic times. I mean you have great revenues, gross margins, cash generation, non-GAAP income, reduction of DSO, reduction of inventory, cash generation, new product sales. Pretty darn good accomplishment, you guys.

**Scott Grout** - *RadiSys Corporation - President and CEO*

Thanks, David.

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**David Nierenberg** - *Nierenberg Consulting - Analyst*

Interesting to note that with the share price briefly recently below \$5 a share, obviously somebody was thinking, if anybody was thinking, that perhaps you were going to drive the truck off the cliff in the fourth quarter, and that doesn't appear to be the case either.

**Brian Bronson** - *RadiSys Corporation - CFO*

Hanging in there so far.

**Scott Grout** - *RadiSys Corporation - President and CEO*

So far, so good with bookings in the fourth quarter.

**David Nierenberg** - *Nierenberg Consulting - Analyst*

You guys know me well enough to know that normally I would be pounding the table asking for a share repurchase but I'm not going to do that because I see that your net cash, although rising, is still just \$28 million and I wouldn't want to touch that. But I certainly encourage you guys, to the extent you don't have 16B or other issues, as well as your board of directors, to demonstrate what a compelling bargain the company has become at the current price levels by going out and doing some nibbling for yourselves.

**Brian Bronson** - *RadiSys Corporation - CFO*

Message received.

**David Nierenberg** - *Nierenberg Consulting - Analyst*

And in any event, I don't want to end on that note. I want to end again on thanking and congratulating you because you've strung together a number of quarters now that are demonstrating a good ability to execute in virtually all respects. Thank you and congratulations.

**Brian Bronson** - *RadiSys Corporation - CFO*

Thanks, David.

**Scott Grout** - *RadiSys Corporation - President and CEO*

We feel like it validates strategy, so we feel good about that.

**Operator**

Your next question comes from the line of Matt Petkun of D.A. Davidson & Co.

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**Matt Petkun** - D.A. Davidson & Co. - Analyst

Couple of follow-ups. So, Brian, 40% tax rate on a non-GAAP basis. So overall, 35% for the year?

**Brian Bronson** - RadiSys Corporation - CFO

That sounds roughly right.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

Okay. But what about next year? I know that it is a bit of a crapshoot but once you get the situation in Canada locked down, maybe a little lower?

**Brian Bronson** - RadiSys Corporation - CFO

Here's the deal on that. So, Q1 '09 -- and by the way, the Canadian dollar has gone, and some of you know this, from .98 to trading today at 1.28. That's the kind of volatility that we're trying to wrestle with on the downside right now. When we lock in in the first quarter 2009, that'll flip-flop. So the exposure we see in the fourth quarter is a good guy in the first quarter because we take a look at the average for 2008 when we lock in with the Canadian tax authorities. And then, everything else being held constant, I would like to see our tax rate in the mid-20s. And more importantly, again, I know you know this, Matt, we're not a taxpayer. Haven't been and won't be for a number of years. This is all just gyrations with the balance sheet.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

Okay. Then one other thing that I would love it if you would comment on and you can choose to or not. This is the quarter where we're going to be setting expectations for Q1 of next year. Obviously for the full year but you'll only probably give guidance on your next call for Q1. There is obviously, at least in our industry, I don't want our opinions to spill into your industry, but more uncertainty out there, and historically, there has been plenty of seasonality in your business in Q1. Would you expect revenues to be down again sequentially in Q1?

**Brian Bronson** - RadiSys Corporation - CFO

It's hard to call, Matt. I think the only thing I'm willing to say is, we do have a business now that's global, whether it is Chinese new year or what have you. At a bare minimum, it's going to be back and weighted so it makes visibility that much more cloudy. But it's just too hard to call overall.

**Matt Petkun** - D.A. Davidson & Co. - Analyst

Again, from a broader, more macro perspective, thus far, through the quarter, if we're talking about Q4, linearity, does it feel something like a normal Q4, if there is such a thing?

**Brian Bronson** - RadiSys Corporation - CFO

It is actually -- I hesitate to say this -- it is actually better than normal bookingswise. That being said, not all of them are NC&R. We're just living in this world. I think we've got good bookings. In fact, they're better than the last couple of quarters around our guidance range. I feel pretty good. But that doesn't mean, come December, that's the shoe that hasn't dropped yet. We're not getting signals of that right now tangibly through bookings.

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**Matt Petkun** - *D.A. Davidson & Co. - Analyst*

Thank you, guys. Again, nice quarter.

**Brian Bronson** - *RadiSys Corporation - CFO*

Thanks, Matt.

**Operator**

(OPERATOR INSTRUCTIONS) We'll pause for a moment. Your next question comes from the line of Harry Maurice of HIC Capital. Sir, your line is open.

**Harry Maurice** - *HIC Capital - Analyst*

Hello, guys. I missed some bits of the balance sheet discussion. It was confusing to me how the 2023 notes and the '13 notes played in conjunction with the ARS agreement you reached. So, you guys do have \$83 million of what I call liquid cash?

**Scott Grout** - *RadiSys Corporation - President and CEO*

Yes.

**Harry Maurice** - *HIC Capital - Analyst*

And I guess come November, the '23 noteholders can potentially put the notes back to the company?

**Scott Grout** - *RadiSys Corporation - President and CEO*

Yes, in about three weeks, they've got the ability to put back to us, that's \$37.5 million. So, \$84 million minus \$37.5 million, call it \$46 million that's left post-payoff. That's separate from the UBS money.

**Harry Maurice** - *HIC Capital - Analyst*

And the '13 noteholders do not have put right.

**Scott Grout** - *RadiSys Corporation - President and CEO*

No put right. Due 2013.

**Harry Maurice** - *HIC Capital - Analyst*

And your ARS agreement should free up cash and I understand you do have availability on 75% of that balance which should free up cash over the next two years.

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**Scott Grout** - *RadiSys Corporation - President and CEO*

Yes, the agreement is (inaudible) from year end, so the agreement says they'll pay us back at par by June 30, 2010. That's a year-and-a-half from year end. Inside the settlement agreement, there is language that suggests -- and obviously they have a vested interest in doing this, too, they own the ARSs, as well as the issuers -- to try to get this back to us by 12/31, 2009. In the meantime, we'll work the paperwork to get this note and interest loan in place that will give us access to hopefully at least \$40 million.

**Harry Maurice** - *HIC Capital - Analyst*

Got it. And a comment that one of the previous callers had asked related to potential strategic acquisitions. Is that something you guys are focused on or open to? Or is this not on the plate?

**Scott Grout** - *RadiSys Corporation - President and CEO*

Yes, I think it is fair to say in this environment, we're certainly keeping our eyes open and creating and maintaining a good roster in relationships. I think doing anything with the level of uncertainty in front of us right now would be a pretty challenging thought. But if things get a little bit difficult, we've got a number of companies out there that could represent something interesting over the next year, two years, three years. So, we are keeping our eyes open and listening but I wouldn't expect to see anything in the near term.

**Harry Maurice** - *HIC Capital - Analyst*

Ok, thank you.

**Scott Grout** - *RadiSys Corporation - President and CEO*

Thanks, Harry.

**Operator**

(OPERATOR INSTRUCTIONS) At this time, there are no further questions in queue.

**Scott Grout** - *RadiSys Corporation - President and CEO*

So, thank you very much, Anita. Wanted to say thank you to all on the call and talk to you all soon. Have a good rest of the day. Good-bye.

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